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Post Hearing Information Pack of

LX Technology Group Limited

凌雄科技集團有限公司

(the “**Company**”)

(Incorporated in the Cayman Islands with limited liability)

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LX Technology Group Limited

凌雄科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation and the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED], plus brokerage of 1.0%, Stock Exchange trading fee of 0.005%, AFRC transaction levy of 0.00015% and SFC transaction levy of 0.0027%, payable in full on application subject to refund on final pricing
Nominal Value : HK\$0.01 per Share
Stock Code : [REDACTED]

[Sole Sponsor, [REDACTED], [REDACTED] and [REDACTED]]



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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED].

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 (device lifecycle management) solution provider. In 2021, our revenue accounted for a market share of approximately 3.9%. 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 management 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. As of December 31, 2019, 2020, 2021 and June 30, 2022, the number of registered corporate customers who were also our device subscription customers amounted to 801, 2,152, 4,638 and 6,611, respectively, accounting for 5.7%, 11.8%, 18.7% and 23.7%, respectively, of all of our registered corporate customers as of the same dates. See “Business – Our Business Model – Device Management SaaS – Bear Butler” for details.

Compared to traditional practices, device and IT technical subscription services help enterprises realize reduced operating costs by approximately 10% to 30% in a three-year period, according to CIC. In particular, DLM benefits enterprises in the following aspects: (i) avoiding substantial financial pressure due to the large one-time costs arising from device purchases; (ii) ensuring availability of device maintenance services without maintaining a large team of in-house IT staff, whose average salary has been rising; (iii) efficient equipment

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management and utilization, and (iv) convenient and secured way to dispose of decommissioned devices. According to CIC, with the continuous investments in IT equipment by enterprises and the deepening of flexibility in office, the DLM market in China is expected to experience growth at a faster rate in the years ahead, increasing to RMB138.2 billion in 2026 at a CAGR of 32.0% during the forecast period from 2021 to 2026. In addition, a large number of waste IT devices are not effectively recycled or disposed of in China. According to CIC, given the emergence of DLM solution providers as well as a growing environmental awareness among enterprises, the device recycling market in China is anticipated to experience an expansion in the years ahead and continue expanding at a faster pace. The market size of device recycling business in China has grown from RMB1.8 billion in 2017 to RMB6.8 billion in 2021 in terms of revenue at a CAGR of 39.2%, and is expected to reach approximately RMB26.1 billion in 2026 in terms of revenue at a CAGR of 31.0% from 2021 to 2026.

Founded in 2004, we started out with computer assembly services and sale of second-hand personal computers, which were conducted solely offline and served primarily individual customers. During the initial operation period, we established business relationship with computer suppliers, and accumulated years of experience and resources. Subsequently, we launched short-term and long-term computer rental programs in 2008 and 2013, respectively, focusing on desktop and laptop computers, and at the same time started providing IT technical services to enterprises. As long-term device subscription services can provide us with a stable and predictable stream of subscription income, it has been the focus of our device subscription business during the Track Record Period. We aspire to make DLM available to millions of individual users working in enterprises across China. Over the years, our business model has evolved from an offline single-product model serving primarily individual customers into a business model covering both long-term and short-term subscription periods and major phases in device lifecycle, serving primarily enterprises and individual users working therein. 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. In 2018, we launched our device management SaaS.

Since our inception, we have instilled social values into our DLM business by promoting green economy and shared economy by facilitating enterprises to lower their operating costs and improving their IT device full-lifecycle utilization, for which we have gained excellent reputation and established a reputable corporate image. For example, we became a member of the National SME Public Service Demonstration Platform (國家中小企業公共服務示範平台) in 2019 and one of the Specialized and New “Little Giant” Enterprises (專精特新“小巨人”企業) in 2021, both of which were high recognitions issued by MIIT. Capitalizing on our leading position and constant business growth, we continuously advocate for a vibrant ecosystem connecting suppliers, customers and sales platforms in China’s DLM industry. Being actively explored by us and other industry players, we believe DLM will continue to exert positive ESG influence on the working environment for China’s enterprises.

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In recent years, the implementation of mass entrepreneurship and favorable policies by the Chinese government have increased the number of enterprises in China, especially SMEs, which are our target group of customers given their growing IT spending and increasing needs for DLM solutions, which can help enterprises (i) avoid significant capital expenditure in purchasing devices themselves, and (ii) dispose of de-commissioned devices in a secured and cost-efficient manner.

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 to RMB1,330.4 million in 2021, representing a CAGR of 63.1%. Furthermore, our revenue increased by 59.1% to RMB854.0 million for the six months ended June 30, 2022 from RMB536.9 million for the same period in 2021. Our adjusted EBITDA⁽¹⁾, 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 RMB127.5 million for the six months ended June 30, 2022, representing an increase of 15.4% compared to the same period in 2021. Our net loss for 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022 amounted to RMB60.3 million, RMB177.1 million, RMB448.7 million, RMB268.1 million and RMB5.8 million, respectively. We achieved NDRR of 117.4%, 113.8% and 138.8% as to our device subscription services in 2019, 2020 and 2021, respectively; and 126.4% and 122.6% for the six months ended June 30, 2021 and 2022, respectively.

OUR STRENGTHS

We believe the following competitive strengths have contributed to our success and will help drive our growth in the future:

- The first DLM solution provider with a business model covering major phases in device lifecycle and a market-leading position in China;
- Enhanced device utilization and customer stickiness benefiting from the closed-loop business model;
- Rapidly expanding customer base through reliable customer outreach channels;
- Robust and multifaceted operational management capabilities;
- Powerful in-house IT system driving operational efficiency; and
- A visionary founder and seasoned management team.

See “Business – Our Strengths” for further details.

(1) We define EBITDA (a non-IFRS measure) as (loss) profit and total comprehensive (expense) income for the year/period by adding back (i) finance costs, (ii) bank interest income, (iii) income tax expense, and (iv) depreciation of property, plant and equipment, and right-of-use assets. We add back [REDACTED], fair value change of FVTPL and share-based payments expense to derive adjusted EBITDA (a non-IFRS measure). For details, please refer to “Financial Information – Non-IFRS Measure.”

SUMMARY

OUR STRATEGIES

To achieve our mission and further solidify our market leadership, we plan to pursue the following strategies:

- Broaden our customer base and service categories;
- Expand our services in core cities and their CBDs;
- Strengthen our operational management capabilities of IT devices during the full device lifecycle;
- Advance investment in technology to optimize operational efficiency; and
- Strengthen our credit-based supervision mechanism by enhancing our risk management capabilities.

See “Business – Our Strategies” for further details.

OUR BUSINESS MODEL

Our DLM solutions directly tackle the pain points of enterprises’ management of devices. With the aim to transform enterprises’ management of devices through services covering major phases of IT device lifecycle, our revenue from DLM solutions during the Track Record Period was primarily generated 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.

Gross margin of our device recycling business has been relatively low as it is our strategy to resell de-commissioned devices as soon as possible, usually at lower selling prices and lower gross margin, to minimize the risk of inventory obsolescence, considering rapidly changing customer preference as well as different new models, design and functions being launched from time to time. Fluctuations in such gross margin during the Track Record Period, primarily due to a shift in our product mix and fluctuating average prices at which we sold our de-commissioned

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devices. See “Financial Information – Discussion of Results of Operations” for a detailed analysis of the changes in the gross profit margin during the Track Record Period, and “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” for a detailed analysis on the relevant risks.

- *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.

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.

	Device subscription services	IT technical subscription services	Total	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	%
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

SUMMARY

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.

Synergies among Our DLM Solutions

Synergies exist among our different service categories of our DLM solutions, leading to strong revenue growth during the Track Record Period. The use of devices across our different service scenarios has increased the IT device utilization rate and strengthened our business growth while promoting green economy and shared economy. For example, the utilization rate of IT devices has increased due to their deployment in multiple business scenarios, such as our long-term and short-term device subscription services. Our IT technical subscription services together with device management SaaS enable enterprise users to maintain and manage a pool of IT devices without hiring a team of IT professionals in-house. Moreover, our 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. In addition, our device management SaaS provides cross-selling opportunities as our *Bear Butler* automatically identifies IT device depreciation and recommends to enterprise users suitable IT device recycling plans. It also recommends device subscription services or IT technical subscription services to enterprises in need of new IT devices and device maintenance or repairment, respectively.

We typically target large-scale enterprises as our suppliers of de-commissioned devices, some of which are our strategic Shareholders and business partners. Our cooperation with them are crucial to our device recycling business. As such, we intend to deepen our cooperation with our strategic Shareholders and business partners through broadening our online user traffic and marketing and promotion activities. In addition, we intend to strengthen our operational management capabilities throughout device lifecycle, in particular our abilities to refurbish and maintain de-commissioned devices, which can help improve the overall operational efficiency and extend the useful lives of devices. We plan to strengthen our revenue and business growth by broadening our customer base and service categories in core cities and their CBDs.

See “Business – Our Business Model,” “Business – Business Sustainability” and “Business – Our Strategies” for further details.

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Key Operating Data

The following tables set forth certain of our key operating data for the periods indicated:

Device Recycling Business

	As of/Year ended December 31,			CAGR*	As of/Six months ended June 30,	
	2019	2020	2021		2021	2022
Number of devices sold (<i>device</i>)	151,155	598,685	857,118	138.1%	202,701	472,682
Number of device recycling customers	1,198	1,059	1,101	(4.1%)	524	596
Average revenue per device recycling customer (<i>RMB</i>)	252,791	722,566	839,608	82.2%	682,835	1,060,598
Average sales value (<i>RMB/device</i>)	1,211.6	914.5	876.9	(14.9%)	1,232.1	1,261.2

Device Subscription Business – Devices

	As of/Year ended December 31,			CAGR*	As of/Six months ended June 30,						
	2019	2020	2021		2021	2022					
	%	%	%		%	%					
Number of devices for subscription**	231,505	100.0	347,951	100.0	455,357	100.0	40.2%	429,588	100.0	488,993	100.0
– Laptop computers	106,446	46.0	150,206	43.2	209,197	45.9	40.2%	192,463	44.8	231,439	47.3
– Desktop computers	89,819	38.8	152,930	44.0	198,233	43.5	48.6%	192,047	44.7	215,044	44.0
– Mobile phones and tablet computers	18,580	8.0	20,511	5.9	23,766	5.2	13.1%	21,391	5.0	18,583	3.8
– All-in-one computers	11,542	5.0	16,178	4.6	13,165	2.9	6.8%	13,809	3.2	12,643	2.6
– Conference-related and other devices	3,596	1.6	4,524	1.3	6,037	1.3	29.6%	5,695	1.3	6,068	1.2
– Printers and photocopiers	1,522	0.7	3,602	1.0	4,959	1.1	80.5%	4,183	1.0	5,216	1.1
Number of devices subscribed	206,382		310,265		388,406		37.2%	383,022		398,908	
Subscription rate of devices (%)#	89.1		89.2		85.3		N/A	89.2		81.6	

* CAGR only refers to the growth rate from the year ended December 31, 2019 to the year ended December 31, 2021.

** Number of devices for subscription represents the total number of devices owned by us which are available to be subscribed by customers and include devices being subscribed for by customers and those not yet subscribed for by customers.

Subscription rate of devices equals to the number of devices subscribed divided by the number of devices for subscription at the end of a given year or period.

SUMMARY

Subscription Business – Volume and Price

	Year ended December 31,			CAGR*	Six months ended	
	2019	2020	2021		June 30, 2021	2022
Total device subscription volume (<i>device</i>)	1,884,458	2,766,998	4,235,301	49.9%	1,910,667	2,243,465
Average monthly device subscription price (<i>RMB/device</i>)	43.6	52.0	62.7	19.9%	60.2	67.0
– Long-term subscription	46.1	51.9	61.7	15.7%	59.7	64.7
– Short-term subscription	34.0	52.2	67.5	40.9%	63.4	80.3
Total IT technical service subscription volume (<i>device</i>)	1,227,953	1,814,452	2,743,947	49.5%	1,204,028	1,544,455
Average monthly IT technical service subscription price (<i>RMB/device</i>)	94.0	62.4	51.2	(26.2%)	53.2	46.3
Average monthly IT technical service subscription price per customer (<i>RMB</i>)	998	1,028	1,047	2.4%	1,386	1,150
Average revenue per KA customer of long-term device subscription services (<i>RMB</i>)	82,436	117,101	153,312	36.4%	76,424	73,384

Device Subscription Business – Customers

	As of/Year ended December 31,			CAGR*	As of/Six months ended June 30,	
	2019	2020	2021		2021	2022
Number of long-term device subscription customers	5,068	6,671	10,030	40.7%	6,058	9,966
Number of short-term device subscription customers	6,317	4,103	4,538	(15.2%)	2,881	2,768
NDRR	117.4%	113.8%	138.8%	N/A	126.4%	122.6%
KA customer growth rate	72.7%	37.6%	55.5%	N/A	48.6%	20.6% ⁽⁸⁾
KA customer retention rate	78.9%	80.3%	84.2%	N/A	84.8%	N/A ⁽⁹⁾

See “Business – Our Business Model – Key Operating Data” for details.

* CAGR only refers to the growth rate from the year ended December 31, 2019 to the year ended December 31, 2021.

** NDRR measures our capability to generate revenue from long-term device subscription returning customers.

SUMMARY


COMPETITIVE LANDSCAPE

The DLM market in China is highly fragmented, composed of a large number of small-scale regional DLM solution providers with only a few top players whose revenues exceeding the RMB500 million threshold. We are one of the two leading companies with a revenue exceeding RMB500 million and more than 300,000 devices for subscription companies in China.

In addition, in 2021, the top five market players (all of which are independent from device manufacturers) in terms of revenue in the industry accounted for approximately 7.2% of the total market share. In the same year, we generated revenue of RMB1.3 billion from our DLM business (including device recycling business, device subscription services, IT technical subscription services and device management SaaS), accounting for approximately 3.9% of the total market share. In addition, the pay-as-you-go office IT integrated solutions of Edianyun (similar to our device and IT technical subscription businesses) recorded a revenue of RMB997.9 million in 2021 while our revenue generated from the device and IT technical subscription businesses was RMB406.0 million in the same year. In this regard, Edianyun ranked the first while we ranked the second in the subscription segment of China’s DLM market in 2021.

The following diagram illustrates the market shares of the top five market players in terms of revenue in 2021:

Competitive analysis of DLM solution providers, China, 2021

Ranking	Company name	Year established	DLM revenue, 2021, RMB in millions	Market share in terms of revenue, 2021	Service type				Device subscription by business scenario	
					Device recycling	Device subscription	IT technical subscription	Device management SaaS	Long-term uses	Short-term uses
1	 小點以租 Our Company	2004	1,330.4	3.9%	√	√	√	√	√	√
2	Edianyun Limited (易點雲有限公司)	2014	1,011.1	2.9%	√	√	√	√	√	None
3	Benlizu (本立租)	2019	100.0	0.3%	√	√	√	None	√	√
4	Aiterent (艾特租)	2017	31.3	0.1%	√	√	√	None	√	√
5	Sleas (閃租網)	2016	30.0	0.1%	None	√	√	None	√	√

Source: independent research conducted by CIC which includes interviews with industry players and research on public information available on websites of the companies mentioned above

See “Industry Overview – The DLM Market in China – Competitive Landscape for the DLM Market in China” for further details.

SUMMARY

OUR CUSTOMERS AND SUPPLIERS

Our customers primarily include companies principally engaged in e-commerce, software development, education and trainings, retails, manufacturing and outsourcing services in China, among which our five largest customers in each year/period principally engaged in manufacturing, retail, IT related services and software development. In each year/period during the Track Record Period, revenue contributed from our five largest customers accounted for 21.0%, 31.3%, 17.7% and 38.1% of our total revenue, respectively, while the largest customer contributed 9.0%, 10.3%, 4.2% and 19.8% of our total revenue, respectively, for the same periods. Our five largest customers in each year/period during the Track Record Period were mostly from device recycling business due to their relatively large order size with revenue recognized upon goods delivery, while revenue from device subscription services was recognized throughout the entire subscription period. See “Business – Our Customers” for further details.

Our suppliers primarily include companies with business operations in new economy industries such as IT device manufacturing and e-commerce in China, among which our five largest suppliers in each year/period have business in IT device manufacturing and e-commerce. In each year/period during the Track Record Period, our purchases from our five largest suppliers accounted for 48.1%, 53.9%, 50.1% and 65.2% of our total purchases, respectively, while our purchase from the largest supplier accounted for 15.9%, 30.7%, 21.2% and 44.0% of our total purchases, respectively, for the same periods. We generally purchased IT devices from our five largest suppliers in each year/period during the Track Record Period. See “Business – Our Suppliers” for further details.

DATA PRIVACY AND INFORMATION SECURITY RISK MANAGEMENT

In the course of our business, we collect and process personal data and transaction data. Specifically, we collect and process (i) phone numbers of customers for the purpose of their registration and login on Bear Butler and bearrental.com website, (ii) credit card number and identity card information of customers for the purposes of verifying their identities when signing electronic service agreements and making electronic delivery order, (iii) business licenses, corporate addresses and industry information of customers. As confirmed by our PRC Legal Advisor, we were in compliance with the applicable PRC data privacy and security laws, rules and regulations relating to the collection, use or security of personal data in all material respects during the Track Record Period and up to the Latest Practicable Date. See “Business – Data Privacy and Information Security Risk Management.”

SUMMARY

RISK FACTORS

Our business and the [REDACTED] involve certain risks as set out in “Risk Factors” in this document. These risks can be broadly categorized into: (i) risks relating to our business and industry; (ii) risks relating to conducting business in China; and (iii) risks relating to the [REDACTED]. You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks we face include the following:

- A significant portion of our revenue has been generated from our device recycling business, the gross margin of which is low and the amount of which depends on factors such as customer demand for particular type and condition of devices, which are out of our control.
- Our customers are primarily SMEs which are more susceptible to economic downturn, which would in turn affect our financial performance and future business growth.
- Our business, growth and prospects are significantly affected by the usage and demand of DLM solutions and our targeted markets in China;
- If we fail to maintain and grow our customer base or keep our customers engaged, our business growth will be negatively impacted;
- Changes and development in the regulatory environment over the industries in which our customers operate could adversely affect the business operations of our customers, thus negatively impacting our own results of operations and financial condition;
- We are exposed to credit risk associated with our customers and the recoverability of our trade and lease receivables and IT devices are subject to uncertainties;
- We have incurred significant upfront costs for device procurement during the Track Record Period. Failure to manage our liquidity and cash flows or inability to obtain additional financing in the future to purchase device could have a material adverse impact on our business, results of operations and financial condition;
- Upon expiry of existing subscription agreements, we may not be able to enter into new device subscription agreements at prices we expected. We cannot adjust the prices at which our devices are subscribed for during their subscription periods;
- Our initiatives to incorporate new technologies may not succeed, which may limit our future growth; and

SUMMARY

- We collect, store and process certain business data of our own business and our customers. If our information system security is compromised and such business data is accessed without authorization, our reputation may be harmed, and we may be exposed to potential liability and significant loss of business.

See “Risk Factors” for further details.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors, except for certain lawsuits arising from the ordinary course of business which would not, individually or in the aggregate, have a material adverse effect on our business, financial condition, and results of operations. See “Business – Employees” and “Risk Factors – Risks Relating to Our Business and Industry – We are subject to risks relating to litigation and disputes, which could adversely affect our business, prospects, results of operations and financial condition.” According to our PRC Legal Advisor, our business operations had been carried out in compliance with applicable laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

While there are certain legal matters relating to our compliance with PRC employment and real property related laws and regulations which our Directors consider would not have a material and adverse effect on our business, financial condition or results of operations, our Directors are of the view that our Group has in place adequate internal control measures to ensure ongoing compliance with applicable laws and regulations. See “Business – Legal Proceedings and Compliance” for further details.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Immediately upon completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Hu will be in control of [REDACTED]% of the issued share capital of our Company through (i) Bear Family, an investment holding company wholly owned by Mr. Hu; (ii) Little Bear, an investment holding company which Mr. Hu holds the entire voting rights; (iii) LX Brothers, our Company’s offshore employee incentive platform for the employee incentive plan in which the entire voting rights were exercised under the instruction of Mr. Hu; and (iv) Beauty Bear, a platform holding Shares for future benefit to employees, advisors and consultants as the Board deems fit, in which the entire voting rights were exercised under the instruction of Mr. Hu. Accordingly, Mr. Hu, Bear Family, Little Bear, LX Brothers and Beauty Bear constitute a group of our Controlling Shareholders under the Listing Rules.

SUMMARY

We have entered into certain transactions which will constitute continuing connected transactions under Chapter 14A of the Listing Rules after [REDACTED]. See “Connected Transactions” for more information.

OUR PRE-[REDACTED] INVESTORS

Since the establishment of our Group, we have secured Pre-[REDACTED] financing from investors including JD entities, Tencent entities and Lenovo entities, which will hold [REDACTED]%, [REDACTED]% and [REDACTED]%, respectively, of the issued share capital of our Company immediately upon completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised). For further details of the identity and background of the Pre-[REDACTED] Investors, and the principal terms of the Pre-[REDACTED] Investments, see “History, Reorganization and Corporate Structure – Pre-[REDACTED] Investments.”

SUMMARY KEY FINANCIAL INFORMATION

The summary historical data of financial information set forth below have been derived from, and should be read in conjunction with, our consolidated audited financial statements, including the accompanying notes, set forth in the Accountants’ Report attached as Appendix I to this document, as well as the information set forth in “Financial Information.” Our financial information was prepared in accordance with IFRS.

Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income

	2019		Year ended December 31, 2020		2021		Six months ended June 30, 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
Loss before tax	(67,202)	(13.4)	(174,963)	(17.2)	(446,271)	(33.5)	(267,850)	(49.9)	(7,105)	(0.8)
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%

SUMMARY

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	RMB’000
				(unaudited)	
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
	<u>82,239</u>	<u>131,209</u>	<u>193,343</u>	<u>85,910</u>	<u>112,173</u>
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
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>23,555</u>
Non-IFRS measure:					
Adjusted EBITDA	<u>36,850</u>	<u>164,484</u>	<u>224,018</u>	<u>110,475</u>	<u>127,507</u>

SUMMARY

Revenues by service lines

During the Track Record Period, we derived our revenues primarily from (i) device recycling income, (ii) device subscription services, and (iii) IT technical subscription services.

- *Device recycling income.* We normally request a deposit of total consideration from customers when they entered into contracts with us. The revenue is recognized when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been delivered out to customers’ designated locations or picked up by customers.
- *Device subscription services.* 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. We recognize revenue from device subscription services over time by reference to the progress towards complete satisfaction of the relevant performance obligation.
- *IT technical subscription services.* For the IT technical subscription services coupled with device subscription services, we receive the payments for both services at the same time. Revenue relating to the IT technical subscription services is recognized over time on a straight line basis over the subscription period, as the customers simultaneously receive and consume the benefits provided by the our performance as we perform.

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 revenues by service lines in absolute amounts and as a percentage of our total revenue 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	%	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

SUMMARY

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 for the years/periods indicated.

	2019		Year ended December 31,				Six months ended June 30,			
	RMB'000	%	2020	%	2021	%	2021	%	2022	%
			RMB'000	%	RMB'000	%	(unaudited)			
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.

Gross Profit and Gross Profit Margin

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

	2019		Year Ended December 31,				Six months ended June 30,			
	Gross Profit	Gross Profit Margin	2020	Gross Profit	2021	Gross Profit	2021	Gross Profit	2022	Gross Profit
	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.

SUMMARY

We incurred gross loss of RMB14.3 million in 2019 for device subscription services mainly due to lower prices offered for our device subscription services (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 at the same time in order to expand our IT technical subscription services and increase our market penetration. In 2020, we recorded gross profit for device subscription services of RMB6.5 million mainly as we managed to raise our prices offered for device subscription services and generate more subscription revenue with our equipment for subscription. As we increased customer stickiness by offering a more diversified service portfolio and types of devices with different brands, configurations and models, we were able to retain existing customers and attract new customers with better pricing terms for device subscription services since 2020.

Our cost of sales was RMB420.2 million, RMB875.3 million, RMB1,137.3 million, RMB439.7 million and RMB754.4 million, respectively, in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, accounting for 84.0%, 85.6%, 85.5%, 81.9% and 88.3%, respectively, of our revenue in the same periods. 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 for offline large-scale examinations.

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. 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 business partners; (iii) marketing and promotion expenses relating to our online and offline advertising and promotion activities; (iv) travelling and transportation; (v) rental and utilities expenses; and (vi) others, which mainly include general office expenses and telecommunication charges.

Summary of Consolidated Statements of Financial Position

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	393,779	573,260	787,765	837,735
Total current assets	235,964	367,819	390,052	478,340
Total current liabilities	289,313	396,809	529,089	677,389
Total non-current liabilities	330,740	714,158	1,278,952	1,251,185
Net current liabilities	(53,349)	(28,990)	(139,037)	(199,049)
Net assets (liabilities)	<u>9,690</u>	<u>(169,888)</u>	<u>(630,224)</u>	<u>(612,499)</u>
Capital and reserves				
Paid-up capital/share capital	55,000	55,000	54,156	505
Reserves	<u>(45,985)</u>	<u>(224,888)</u>	<u>(684,380)</u>	<u>(613,004)</u>
Equity attributable to owners of the Company	9,015	(169,888)	(630,224)	(612,499)
Non-controlling interests	<u>675</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total equity (deficit)	<u>9,690</u>	<u>(169,888)</u>	<u>(630,224)</u>	<u>(612,499)</u>

SUMMARY

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 (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 liabilities decreased from RMB630.2 million as of December 31, 2021 to RMB612.5 million as of June 30, 2022, primarily due to fair value gain of financial liabilities at fair value through profit or loss of RMB36.4 million for the six months ended June 30, 2022.

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 to purchase IT devices, (ii) decrease in inventories of RMB47.3 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.

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 (iii) an increase in bank balances and cash of RMB87.5 million.

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 net losses in 2020, 2021 and for the six months ended June 30, 2022 and 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.” The Preferred Shares will be re-designated from financial liabilities to equity as a result of the automatic conversion into ordinary shares upon [REDACTED] of the Company such that the net liabilities position would turn into net assets.

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 and 2022 were primarily attributable to net losses of RMB60.3 million, RMB177.1 million, RMB448.7 million, RMB268.1 million and RMB5.8

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million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. Our loss-making performance in 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022 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 (ii) the increase in customer acquisition expenses paid to our business partners. The increasing indebtedness during the Track Record Period was due to the increase in borrowings to fund our purchase of IT devices as a result of our business expansion.

Financial liabilities at FVTPL

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded financial liabilities measured at FVTPL of RMB256.8 million, RMB606.5 million, RMB1,117.1 million and RMB1,080.7 million, respectively, representing investments by our Pre-[REDACTED] Investors. For details, please see “Financial Information – Indebtedness – Financial liabilities at FVTPL.” 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.

Summary of Consolidated Statements of Cash Flow

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30, 2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
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	<u>75,911</u>	<u>80,378</u>	<u>118,553</u>	<u>83,117</u>	<u>206,009</u>

SUMMARY

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.

Summary of Key Financial Ratios

The following table sets forth certain of our key financial ratios for the periods indicated.

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

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%. The gearing ratio as of December 31, 2020, December 31, 2021 and June 30, 2022 were not meaningful because the Company recorded deficit in equity as of December 31, 2020, December 31, 2021 and June 30, 2022. For the definitions of other ratios, please see “Financial Information – Key Financial Ratios.”

For further details, see “Financial Information – Key Financial Ratios.”

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BUSINESS SUSTAINABILITY

We incurred net liabilities, net current liabilities and net losses during the Track Record Period, primarily because the DLM industry in China is at its early stage and we have made substantial investments to expand our customer base and drive the growth of our business, which we believe are indispensable to establish compelling competitive advantages for the long-term development of our business. In addition, we adopted the employee incentive plans, including LX Brothers Employee Incentive Plan, Beauty Bear Employee Incentive Plan on March 23, 2022, April 1, 2022 and April 1, 2022, respectively, resulting in expenses associated with share-based payments for the year ending December 31, 2022. Our future profitability is uncertain and subject to various factors, including our ability to effectively monetise our product and service offerings and continuously grow revenues in a cost-effective way by improving our operational efficiency. **Despite our continued increase in customer base, we may continue to incur net losses in the foreseeable future. We expect to record net loss for 2022 as a result of (i) fair value loss attributable to financial liabilities at FVTPL arising from investments by our Pre-[REDACTED] investors, which were mainly driven by the increased valuation of our Company, (ii) share-based compensation expenses in relation to employee incentive plans adopted in 2022, and (iii) [REDACTED]. We expect to return to or become consolidated net asset position following the conversion of preferred shares held by our Pre-[REDACTED] investors into ordinary shares upon [REDACTED]. However, we may turn to net liabilities position if our profitability further deteriorates.**

Our profitability during the Track Record Period

Gross margin

Our overall gross margin is determined by the gross margin of our major business segments, i.e. the subscription services (comprises device subscription and IT technical subscription) and device recycling.

Device recycling business: Our device recycling business is different from our computer assembly services and sale of second-hand computers business in the past as the former is conducted both online and offline, covering multiple product categories and serving primarily enterprises and individual users working therein while the latter was conducted offline, covering single product category and serving primarily individual customers. 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.

Gross margins of our 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. For details, please see “Financial Information – Description of Major Components of Our Results of Operations – Gross profit and gross profit margin of the device recycling business by

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product types". Attributable to its trading nature, the gross margins of our device recycling business primarily reflect the difference between the prices at which we procured the de-commissioned devices and at which we subsequently sold them, and are therefore lower compared to the gross margins of our subscription business, which are provision of services by nature. Nevertheless, gross margins of our device recycling business have been positive during each year of the Track Record Period as further discussed below.

Gross margin of our device recycling business in 2019 was 0.1%. Such 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. In 2020, our gross profit margin of device recycling business improved significantly to 6.5% as (i) 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, and (ii) the market prices of IT devices rose due to shortage caused by supply chain disruption during the COVID-19 pandemic. In 2021, our gross profit margin of device recycling business decreased to 3.1%, 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. In the first half of 2022, our gross profit margin of device recycling business decreased to 2.0% compared to 6.7% for the same period in 2021, primarily attributable to decreasing average sales value per device of de-commissioned IT devices following the ease of shortage caused by supply chain disruption in the second half of 2021 while certain portion of our inventories of de-commissioned devices were purchased in the first half of 2021 where the market prices of IT devices were high.

Overall gross margin: While our gross margin of device recycling business improved from 0.1% in 2019 to 6.5% in 2020, our overall gross margin dropped slightly from 16.0% in 2019 to 14.4% in 2020, primarily attributable to drop in gross margin of our IT technical subscription services, which was in turn due to (i) decrease in average monthly subscription prices under IT technical subscription services, which was in turn driven by the increasing number of long-term subscriptions with lower subscription price, and (ii) increase in costs of sales due to increase in other costs, which were primarily project related expenses such as venues and temporary service staff. In 2021, gross margin of our device subscription services improved significantly to 23.2% compared to 4.5% in 2020, primarily attributable to increase in both (i) the average monthly subscription fees per device under device subscription services, due to increase in subscription of laptop computers and printers which were on average priced relatively higher, and (ii) device subscription turnover rate, as more devices were subscribed to satisfy the growing business needs of enterprises. Nevertheless, our overall gross margin remained stable at 14.5% in 2021 compared to 14.4% in 2020 due to drop in gross margin of our recycling business as explained above. In the first half of 2022, gross margin of our device

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subscription services continued to improve while gross margin of our device recycling business dropped as explained above, resulting in drop in overall gross margin to 11.7% in the first half-year of 2022 compared to 18.1% for the same period in 2021.

We consider that our substantial investment to provide more diversified service offering to customers and expand our customer base, which incurs higher expenses in the short-term, is essential for a solid foundation for our long-term success. We witnessed strong and robust growth in our business operation and financial condition during the Track Record Period. We intend to improve our profitability through the measures discussed in “– Our strategy to improve profitability” below. With our improving profitability, we also expect our operating cash flow to improve concurrently.

Our Strategy to Improve Profitability

We have more than 10 years of operating history in the DLM industry in China since our inception in 2004. According to CIC, we are the first company in China to have built a multi-scenario and closed-loop DLM business model. Our closed-loop DLM business model has been continuously optimizing and become the foundation of our development. During the Track Record Period, our adjusted EBITDA, which is a non-IFRS measure, reached RMB36.9 million, RMB164.5 million and RMB224.0 million for the years ended December 31, 2019, 2020 and 2021 respectively, representing a CAGR of 146.6%; and increased by 15.4% to RMB127.5 million for the first half-year of 2022 from RMB110.5 million for the same period in 2021. For details, please see “Financial Information – Non-IFRS Measure.” Our net cash generated from operating activities amounted to RMB58.7 million, RMB109.9 million and RMB278.8 million for the years ended December 31, 2019, 2020 and 2021 respectively, representing a CAGR of 117.9%. Our net cash generated from operating activities amounted to RMB192.9 million for the six months ended June 30, 2022.

While we have achieved gross profit and net operating cash inflow during the Track Record Period, 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. Our loss-making performance in 2019, 2020, 2021 and for the six months ended June 30, 2021 was primarily attributable to (i) fair value 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, attributable to financial liabilities at FVTPL arising from investments by our Pre-[REDACTED] investors, 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, driven by our business expansion.

We intend to improve our profitability by continuously increasing revenue and enhancing operational efficiency, particularly by way of: (i) expanding our customer base and market share in core regions; (ii) increasing revenue per customer through cross-selling among our service lines and device categories; and (iii) further enhancing our operational efficiency and reducing marginal costs.

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Expand our customer base and market share in core regions

The numbers of customers and devices for subscriptions are crucial to our business growth. For example, our long-term device subscription customers increased from 5,068 in 2019 to 10,030 in 2021 at a CAGR of 40.7% and increased by 64.5% to 9,966 in the first half-year of 2022 from 6,058 in the same period last year. Our devices available for subscription increased from 231,505 as of December 31, 2019 to 455,357 as of December 31, 2021 at a CAGR of 40.2% and increased further to 488,993 as of June 30, 2022. Our growing numbers of customers and devices for subscription are expected to drive our revenue growth.

We intend to expand our customer base and market share in core regions by (i) upgrading our system infrastructure and further penetrating into core cities, and (ii) deepening cooperation with strategic Shareholders and business partners as well as other ecommerce platforms.

Increase revenue per customer through cross-selling among our service lines and device categories

We intend to increase the revenue per customer by promoting cross-selling among our service lines and device categories. Specifically, our device subscription customers may engage us to dispose of their de-commissioned devices and provide onsite technical support. In addition, we plan to increase revenue by promoting subscription for device categories other than laptops (including notebooks, desktops, servers, printers, and large conference screens). We intend to promote the above cross-selling via (i) introducing the updated and latest device models on its platforms from time to time, (ii) offering discount to customers engaging us for extra categories of devices and services, and (iii) including the amount of cross-selling achieved as one of the key performance indicators for our sales and marketing staff. We believe that our comprehensive DLM solutions not only enhance customer stickiness, but also increase the amount of revenue we can earn from a single customer, thereby enhancing our competitiveness and profitability.

Further improve our operational efficiency through optimizing our major costs components

We intend to improve our operational efficiency through optimizing our major costs components, primarily including depreciation, distribution and selling expenses, and finance costs. In particular, we intend to (i) through refurbishment and maintenance, extend the useful lives of fully depreciated devices for another two years, during which the relevant device can continue to generate revenue from device subscription services without any depreciation charges; (ii) improve the efficiency of distribution and selling expenses via measures discussed in “– Expand our customer base and market share in core regions” and “– Increase revenue per customer through cross-selling among our service lines and device categories.” In addition, to better control our finance costs, we will continue to utilize an optimal mix of equity and debt financing to finance our business operation and future plans. We also expect to receive more favorable terms of debt financing given the [REDACTED] status of the Company upon the [REDACTED]. Moreover, we intend to increase the proportion of bank borrowings, the interest rate of which is generally lower compared to borrowings from non-bank financial institutions.

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For a detailed analysis of our strategy to improve profitability, see “Business – Business Sustainability – Our Strategy to Improve Profitability.”

Based on the foregoing, our Directors believe that our business is sustainable. As a result of (i) conversion of the Preferred Shares into equity upon the [REDACTED], and (ii) net proceeds from the [REDACTED], we expect our consolidated net liabilities position during the Track Record Period and as of the Latest Practicable Date to become consolidated net asset position in the foreseeable future. As of the Latest Practicable Date, we had unutilized banking facilities of approximately RMB152.4 million. Taking into consideration of financial resources currently available to us, including cash and cash equivalents on hand, of RMB206.0 million as of June 30, 2022, internally generated funds and the estimated proceeds from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present needs and at least for the next 12 months from the date of this document notwithstanding that we had recorded net current liabilities and net losses throughout the Track Record Period and net liabilities as at December 31, 2020 and 2021 and June 30, 2022. Having taken into account the view and analysis of our Directors above and the due diligence conducted, nothing has come to the attention of the Sole Sponsor which would cause it to disagree with our Directors’ view above.

The foregoing forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. For related risks, see “Risk Factors – Risks Relating to Our Business and Industry – Our historical growth rates may not be indicative of our future growth. If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.”

RECENT DEVELOPMENT

No Material Adverse Change

Based on the Group’s unaudited management accounts, our revenue for the nine months ended September 30, 2022 increased as compared to the same period in 2021 due to the increase in revenue across all three service lines. In addition, the number of devices for subscription increased from approximately 489,000 as of June 30, 2022 to approximately 515,000 as of September 30, 2022.

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Our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since June 30, 2022, the end of the period reported on in the Accountants’ Report set out in Appendix I to this document.

Expected loss for the year ending December 31, 2022

We expect to record net loss for the year ending December 31, 2022. Our estimated net loss for the year ending December 31, 2022 will be impacted by the changes in fair value of the Preferred Shares (which were issued as part of the reorganization), increase of distribution and selling expenses, increase in finance costs and increase in research and development expenses. With the increasing valuation of the Company, fair value liabilities of the Preferred Shares may continue to increase, and may continue to record fair value loss on the Preferred Shares. The Preferred Shares will be automatically converted into ordinary shares upon the [REDACTED], after which we do not expect to recognise any further loss or gain on fair value changes from the Preferred Shares.

In line with our overall growth strategy, we expect our distribution and selling expenses, research and development expenses and finance costs to increase in the absolute amount in 2022 compared to 2021 as we invest in sales and marketing to grow our user base and user engagement, and further enhance our brand recognition. We have also invested in various other areas including research and development capabilities to further advance our technology and customer service portals, which would in turn improve our customer experience and facilitate customer acquisition. As a result, we expect to record net loss for the year ending December 31, 2022.

COVID-19 Outbreak and Effects on Our Business

Due to the COVID-19 outbreak and its resurgence, certain of our marketing activities and customer services had been temporarily delayed or suspended. In 2020, we temporarily closed (i) 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 offices in Shenzhen were temporarily closed for a week in March 2022, our office 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, and 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:

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- *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 promoted 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 helps 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.

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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. For more details related to the COVID-19 outbreak, its effects on our business and our remedial measures, see “Financial Information – COVID-19 Outbreak and Effects on Our Business.”

Recent Regulatory Developments

On December 28, 2021, the CAC and other 12 PRC governmental authorities jointly issued the revised Measures for Cybersecurity Review (《網絡安全審查辦法》) (the “**Revised Cybersecurity Review Measures**”) which took effect on February 15, 2022. The Revised Cybersecurity Review Measures stipulate that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Revised Cybersecurity Review Measures also stipulate that a platform operator with more than one million users’ personal information aiming to be listed abroad must apply for cybersecurity review. Also, the competent PRC government authority may initiate cybersecurity review in case that any member of the cybersecurity review committee believes that any network product or service or data processing activity affects or is likely to affect national security. On November 14, 2021, the CAC published the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Data Security Regulations**”), which applies to activities relating to the use of network to carry out data processing activities within the territory of the PRC. See “Regulatory Overview – Regulations Relating to Internet Security, Information Security and Data Privacy” for more details.

According to the Revised Cybersecurity Review Measures, a network platform operator with more than one million users’ personal information seeking to be listed abroad must apply for cybersecurity review. According to our PRC Legal Advisor, we are highly likely to be considered as a network platform operator as we, acting as a data processor, provide device subscription and IT technical subscription services through our official website (bearrental.com), provide device management SaaS through *Bear Butler*, and sell our own de-commissioned IT devices through our proprietary quotation platform (jp.lr-amm.com). However, as of the Latest Practicable Date, we possessed the personal information of a total of 49,272 registered users from all of our websites and platform, which was far less than the one million threshold.

On May 9, 2022, our PRC Legal Advisor conducted a phone consultation with the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心, the “**CCRC**”) as to whether it is necessary for us to apply for cybersecurity review. As confirmed by CCRC, we do not need to apply for such review for the [REDACTED] and,

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specifically, “listing in Hong Kong” does not constitute “listing abroad.” Based on the foregoing, our PRC Legal Advisor is of the view that we are not obliged to apply for cybersecurity review for the [REDACTED] under the current regulatory regime.

Pursuant to Article 16 of the Revised Cybersecurity Review Measures, the competent PRC government authorities may initiate cybersecurity review where the purchase of any network products or services or any data processing activities affects or is likely to affect national security. According to our PRC Legal Advisor, as the types of data processed by the Group are mainly transaction data and user data for registration authentication, which have not been recognized as “essential data” or “national core data” by the competent PRC government authorities or have been determined to be endangering national security and public interests by any regulatory authority, the risk of the competent PRC government authorities initiating cybersecurity reviews on us is low. The Sole Sponsor’s PRC legal advisor concurs with the foregoing analysis as to the related PRC Laws by our PRC Legal Advisor.

According to our PRC Legal Advisor and as confirmed by our Directors, if the Draft Data Security Regulations were to be implemented in their current form, the Group would be in compliance with the Revised Cybersecurity Review Measures and the Draft Data Security Regulations in all material aspects. In addition, according to our PRC Legal Advisor and as confirmed by our Directors, the Revised Cybersecurity Review Measures and the Draft Data Security Regulations, if implemented in their current form, would not have a material adverse effect on our business operations or the [REDACTED]. See “Business – Data Privacy and Information Security Risk Management – Recent Regulatory Developments” for details.

Having taken into account the view and analysis of our Directors and the PRC Legal Advisor as described above as well as the due diligence conducted, nothing has come to the attention of the Sole Sponsor which would cause it to disagree with the reasonableness of our Directors’ view that (i) the Group would be in compliance with the Revised Cybersecurity Review Measures and the Draft Data Security Regulations in all material aspects if the Draft Data Security Regulations were to be implemented in their current form; and (ii) the Revised Cybersecurity Review Measures and the Draft Data Security Regulations, if implemented in their current form, would not have a material adverse effect on our business operations or the [REDACTED].

[REDACTED] STATISTICS

All statistics in the following table are based on the assumptions that: (i) the [REDACTED] has been completed and [REDACTED] Shares are issued pursuant to the [REDACTED], (ii) the [REDACTED] is not exercised; and (iii) unless stated otherwise, [REDACTED] Shares are issued and outstanding following the completion of the [REDACTED].

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	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
Market capitalization immediately after the [REDACTED] ⁽¹⁾	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited pro forma adjusted consolidated tangible assets less liabilities per Share ⁽²⁾⁽³⁾	HK\$[[REDACTED]]	HK\$[[REDACTED]]

Notes:

- (1) The calculation of market capitalization is based on [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised).
- (2) The unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at June 30, 2022 per Share is calculated after making the adjustments referred to “Unaudited Pro Forma Financial Information” in Appendix II to this document and 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 [132,842,193] shares which may be redesignated as ordinary shares from the Company’s preferred shares upon completion of the [REDACTED] and the related effect of the Capitalisation Issue, 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.
- (3) The unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at June 30, 2022 per Share have not taken into account the effect of the redesignation of the Company’s preferred shares into ordinary shares of the Company upon completion of the [REDACTED] (the “Subsequent Transactions”) which 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 at June 30, 2022 per Share would be [RMB[REDACTED]] (equivalent to [HK\$[REDACTED]]) based on an [REDACTED] of [HK\$[REDACTED]] per [REDACTED] and [RMB[REDACTED]] (equivalent to [HK\$[REDACTED]]) 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. Please refer to “Unaudited Pro Forma Financial Information” in Appendix II to this document for the exchange rate of RMB to HK\$.

SUMMARY

DIVIDEND POLICY

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. For more information, see “Financial Information – Dividends.”

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$[REDACTED] million from the [REDACTED], after deducting the [REDACTED] commissions and other estimated expenses payable by us in connection with the [REDACTED], assuming that the [REDACTED] is not exercised and assuming an [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range set forth on the cover page of this document). We intend to use such net proceeds from the [REDACTED] for the purposes and in the amounts set forth below:

- approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to improve customer experience to satisfy the evolving customer demands;
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand the scale of IT devices under our management and develop DLM solutions products and services for different scenarios, such as digital printing solutions and integrated cloud-based conferencing solutions, etc.
 - (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to continue to refurbish and upgrade de-commissioned IT devices to extend their service life and upgrade their performance and improve customer experience.

SUMMARY

- (iii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to improve our technical service capabilities, recruit technical professionals with extensive technical service experience and provide professional training to the team, increase the coverage of service personnel in core cities and CBDs, and address customers’ demand in a more responsive manner in these regions.
- approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand customer base and our market share in targeted markets;
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand our elite sales team and improve the training system for sales team to strengthen our sales network, broaden our service categories in core cities and CBDs, and expand our customer base of growing enterprises.
 - (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to enhance our brand awareness and industry influence through online and offline marketing and brand promotion, and increase awareness and engagement of customers.
- approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used for system upgrade and product development;
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to further enhance technology capabilities and upgrade system infrastructure to improve our operational efficiency, asset management efficiency and asset utilization rate.
 - (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to upgrade and enhance the functionalities of our SaaS products by introducing features such as IoT technology and intelligent inventory counts to cover more business and application scenarios for enterprises to manage the full lifecycle of fixed assets.
 - (iii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to co-develop customer service portals with third-party business partners with the core capabilities of the DLM system through standard technical interfaces, so that third-party business partners can provide DLM solutions on their own platforms.

SUMMARY

- approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to strengthen risk management capabilities; and
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand the application of artificial intelligence technology, upgrade the intelligent risk control model and enhance real-time corporate credit assessment capabilities. We also plan to upgrade and optimize our intelligent credit granting, anti-fraud and early risk warning systems to improve the efficiency and accuracy of risk assessment.
 - (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to establish internal and offline risk control teams, and improve online and offline integrated risk control capabilities.
- the remaining approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used for working capital and general corporate purposes.

For more information, see “Future Plans and Use of Proceeds.”

[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 [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.

SUMMARY

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the granting of the [REDACTED] of, and permission to deal in, our Shares in issue and to be issued pursuant to the [REDACTED], on the basis that, among other things, we satisfy the market capitalization/revenue/cash flow test under Rule 8.05(2) of the Listing Rules with reference to (i) our revenue in 2021, being RMB1.3 billion (approximately HK\$1.4 billion), which is over HK\$500 million, (ii) our positive cash flow from our operating activities for the three years ended December 31, 2021 in aggregate, being RMB447.4 million (approximately HK\$494.0 million), which is over HK\$100.0 million; and (iii) our expected market capitalization at the time of the [REDACTED], which, based on the low end of the indicative [REDACTED] range, exceeds HK\$2.0 billion.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this document.

“Accountants’ Report”	the accountant’s report of our Company, the text of which is set out in Appendix I to this document
“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AFRC”	The Accounting and Financial Reporting Council of Hong Kong
“Articles of Association” or “Articles”	the amended and restated articles of association of the Company, conditionally adopted on September 27, 2022 and will come into effect upon [REDACTED], as amended, supplemented or otherwise modified from time to time, a summary of which is set out in the Appendix III in this document
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beauty Bear”	Beauty Bear Technology Limited, a company incorporated in the BVI with limited liability on October 29, 2021 and one of our Controlling Shareholders
“Beauty Bear Employee Incentive Plan”	the employee incentive plan consisting of the share option scheme and the restricted share award scheme adopted by our Company pursuant to a resolution of our Board passed on April 1, 2022 and October 17, 2022. The principal terms of the plan are summarized in “Statutory and General Information – D. Employee Incentive Plans – 2. Beauty Bear Employee Incentive Plan” in Appendix IV to this document
“Bear Family”	Bear Family Technology Limited, a company incorporated in the BVI with limited liability on October 29, 2021 and one of our Controlling Shareholders
“Board” or “Board of Directors”	the board of directors of the Company

DEFINITIONS

“Business Day” or “business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAC”	the Cyberspace Administration of China (國家互聯網信息辦公室)
“CAGR”	compound annual growth rate

[REDACTED]

“Cayman Companies Act” or “Companies Act”	the Companies Act (As Revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Capitalization Issue”	the issue of [REDACTED] Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the section headed “Statutory and General Information – A. Further Information about Our Group – 5. Written Resolutions Passed by Our Shareholders on September 27, 2022” in Appendix IV to this document
“CBD”	central business district of a city

[REDACTED]

DEFINITIONS

[REDACTED]

“China” or “PRC”	the People’s Republic of China, but for the purpose of this document and for geographical reference only and except where the context requires, references in this document to “China” and the “PRC” do not apply to Taiwan, the Macau Special Administrative Region or Hong Kong
“CIC” or “Industry Consultant”	China Insights Industry Consultancy Limited, an Independent Third Party, and a market research firm engaged by the Company to prepare an industry report, the details of which are set out in the section headed “Industry Overview” in this document
“CIC Report”	an industry report dated in 2021 commissioned by us and issued by CIC containing an analysis of DLM market in the PRC and other relevant economic data, as referred to in the section headed “Industry Overview” in this document
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company” or “the Company”	LX Technology Group Limited 凌雄科技集團有限公司, an exempted company incorporated in the Cayman Islands with limited liability on January 10, 2022
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and unless the context requires otherwise, refers to Mr. Hu, Bear Family, Little Bear, LX Brothers and Beauty Bear

DEFINITIONS

“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)” or “our Directors”	director(s) of the Company
“EIT”	the PRC enterprise income tax
“EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), enacted on March 16, 2007, effective from January 1, 2008 and latest amended on December 29, 2018 by the NPC
“Extreme Conditions”	extreme condition(s) including but not limited to serious disruption of public transport services, extensive flooding, major landslides and large-scale power outage caused by a super typhoon according to the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Labour Department of the government of Hong Kong in June 2019, as announced by the government of Hong Kong
“GDP”	gross domestic product
“GFA”	gross floor area

[REDACTED]

“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HKAS(s)”	Hong Kong Accounting Standards

DEFINITIONS

[REDACTED]

“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) (including HKASs and Interpretations issued by the HKICPA)
“HKICPA”	Hong Kong Institute of Certified Public Accountants

[REDACTED]

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
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DEFINITIONS

[REDACTED]

“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“Independent Third Party” or “Independent Third Parties”	individual(s) or company(ies) who or which, to the best of our Director’s knowledge having made all due and careful enquiries, is/are not a connected person(s) of our Company under the Listing Rules

[REDACTED]

DEFINITIONS

[REDACTED]

“JD” or “JD.com”	JD.com, Inc., a pre-eminent e-commerce platform in China, the shares of which are listed on the Stock Exchange (stock code: 9618) and the American depositary shares of which are listed on NASDAQ (ticker symbol: JD)
“JD Group”	JD.com and its subsidiaries and consolidated affiliated entities
“Latest Practicable Date”	October 17, 2022, being the latest practicable date for the purpose of ascertaining certain information in this document prior to its publication

[REDACTED]

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Little Bear”	Little Bear Technology Limited, a company incorporated in the BVI with limited liability on November 5, 2021 and one of our Controlling Shareholders
“LX Brothers”	LX Brothers Technology Limited, a company incorporated in the BVI with limited liability on October 29, 2021 and one of our Controlling Shareholders
“LX Brothers Employee Incentive Plan”	the employee incentive plan adopted by our Company pursuant to the written resolutions of our Board passed on March 23, 2022. The principal terms of the plan are summarized in “Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan” in Appendix IV to this document

DEFINITIONS

“LX Technology”	LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) (previously known as Shenzhen LX Rental Service Co., Ltd. (深圳市凌雄租賃服務有限公司)), a limited liability company established in the PRC on May 3, 2013 and an indirect wholly-owned subsidiary of our Company
“M&A Rules”	the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》)
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of the Company, adopted on September 27, 2022, and as amended, supplemented or otherwise modified from time to time, a summary of which is set out in the Appendix III in this document
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Hu”	Mr. Hu Zuoxiong (胡祚雄), our founder, chairman of the Board, chief executive officer of our Group, executive Director and one of our Controlling Shareholders
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NEEQ”	the National Equities Exchange and Quotations, a national securities trading market in the PRC for trading of the shares of public companies that are not listed on either the Shenzhen Stock Exchange or the Shanghai Stock Exchange
“ODI”	overseas direct investments conducted by PRC entities

DEFINITIONS

[REDACTED]

“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	Company Law of the PRC (中國人民共和國公司法) enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and latest amended on October 26, 2018, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the PRC Accounting Standards and Accounting Regulations for Business Enterprises (《中國企業會計準則》) promulgated by the MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organizations of such government or, as the context requires, any of them

DEFINITIONS

“PRC Legal Advisor”	Jingtian & Gongcheng, legal advisor to the Company on PRC laws in connection with the [REDACTED]
“Pre-[REDACTED] Investments”	the pre-[REDACTED] investments in our Group undertaken by the Pre-[REDACTED] Investors, details of which are set out in “History, Reorganization and Corporate Structure” in this document
“Pre-[REDACTED] Investors”	the investor(s) of the Pre-[REDACTED] Investments, details of which are set out in “History, Reorganization and Corporate Structure” in this document
“Preferred Share(s)”	the Series A Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares, the Series D-1 Preferred Shares, the Series D-2 Preferred Shares and the Series D-3 Preferred Shares
	[REDACTED]
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the PRC Government
“Qualified Institutional Buyer” or “QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization of the Group in preparation of the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure – Reorganization” in this document
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce (國家工商行政管理總局)

DEFINITIONS

“SAMR”	the State Administration for Market Regulation (國家市場監督管理總局)
“SAT”	the State Taxation Administration (國家稅務總局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Series A Preferred Share(s)”	the series A preferred share(s) of par value HK\$0.01 per share in the authorized share capital of our Company, of which 15,091,329 shares are in issue as of the Latest Practicable Date
“Series B Preferred Share(s)”	the series B preferred share(s) of par value HK\$0.01 per share in the authorized share capital of our Company, of which 14,593,840 shares are in issue as of the Latest Practicable Date
“Series C Preferred Share(s)”	the series C preferred share(s) of par value HK\$0.01 per share in the authorized share capital of our Company, of which 2,084,011 shares are in issue as of the Latest Practicable Date
“Series D-1 Preferred Share(s)”	the series D-1 preferred share(s) of par value HK\$0.01 per share in the authorized share capital of our Company, of which 12,824,688 shares are in issue as of the Latest Practicable Date
“Series D-2 Preferred Share(s)”	the series D-2 preferred share(s) of par value HK\$0.01 per share in the authorized share capital of our Company, of which 3,606,944 shares are in issue as of the Latest Practicable Date
“Series D-3 Preferred Share(s)”	the series D-3 preferred share(s) of par value HK\$0.01 per share in the authorized share capital of our Company, of which 1,000,000 shares are in issue as of the Latest Practicable Date
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company, which are to be traded in Hong Kong dollars and [REDACTED] on the Main Board
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Lingrui”	Shenzhen Lingrui Internet Information Technology Co., Ltd. (深圳凌瑞網絡信息技術有限公司), a limited liability company established in the PRC on April 17, 2017 and an indirect wholly-owned subsidiary of our Company
“Shenzhen LX”	Shenzhen LX Technology Limited (深圳市凌雄科技有限 公司), a limited liability company established in the PRC on November 1, 2004 and an indirect wholly-owned subsidiary of our Company
	[REDACTED]
“Sole Sponsor”	Haitong International Capital Limited
“sq.m.”	square meter(s)
“SSE STAR Market”	Shanghai Stock Exchange Science and Technology Innovation Board
	[REDACTED]
“State Council”	the State Council of the People’s Republic of China (中 華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC
“Track Record Period”	the period comprising the three years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022

DEFINITIONS

“U.S. Government”	the federal government of the United States, including its executive, legislative and judicial branches
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Ultimate Controlling Shareholder”	Mr. Hu

[REDACTED]

“United States”, “USA” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “USD”	U.S. dollars, the lawful currency of the United States
“VAT”	the PRC value-added tax

Unless the content otherwise requires, references to “2019,” “2020” and “2021” in this document refer to our financial year ended December 31 of such year.

Certain amounts and percentage figures included in this document were subjected to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English translation of PRC entities, enterprises, nationals, facilities and regulations in Chinese or another language in this document is for identification purposes only. To the extent that there is any inconsistency between the Chinese names of PRC entities, enterprises, nationals, facilities and regulations and their English translations, the Chinese names shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this document in connection with us and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.

“AI”	artificial intelligence
“app” or “application”	application software designed to run on smartphones and other mobile devices
“closed-loop”	a model that integrates forward flows and reverse flows in the system. In the forward flows devices are manufactured and subscribed by customers, while in the reverse flows de-commissioned devices are collected and either refurbished into new versions of the original devices or sold to downstream users
“DLM”	Device lifecycle management, comprising a broad portfolio of solutions covering major stages of the full lifecycle of an IT device, aiming at improving enterprises’ return on investment in devices and ensuring devices function at their expected quality and efficiency
“e-commerce”	electronic commerce, a transaction of online buying or selling which draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange, inventory management systems, and automated data collection systems
“ERP”	enterprise resource planning, a business process management software that allows an organization to use a system of integrated applications to manage the business and automate back-office functions relating to technology, services, and human resources
“ESG”	environmental, social and corporate governance
“Internet”	international network that links together computers and allows data to be transferred between each computer using the TCP/IP protocols
“IT”	information technology

GLOSSARY OF TECHNICAL TERMS

“KA customer(s)”	key account customer(s) who subscribe(s) 30 devices or more as of January 1 of a particular year under the Company’s long-term device subscription services
“KA customer growth rate”	the number of KA customers in a given year divided by the number of KA customers in the preceding year, minus one, and multiplied by 100%
“KA customer retention rate”	the number of KA customers retained as of January 1 of a given year and that of the following year divided by the number of KA customers as of January 1 of that given year, multiplied by 100%
“NDRR”	net dollar retention rate, a metric used to measure a company’s capability to generate revenue from long-term device subscription returning customers by comparing the amount of revenue that a company brings in a given period from the previous period’s long-term device subscription customers. We calculate NDRR in a given 12-month period by starting with the revenue from all long-term device subscription customers in the prior 12-months period. We then calculate the revenue from these same long-term device subscription customers in the given 12-month period, which includes the revenue from new long-term device subscription customers in the prior 12-month period who may contribute to our revenue for only several months in the prior 12-month period. We then divide the given 12-month period revenue by the prior 12-month period revenue contributed by the long-term device subscription customers to arrive at our NDRR
“new economy company”	a company engaged in high-growth industries that are on the cutting edge of technology and are believed to be the driving force of economic growth and productivity
“PC(s)”	personal computer(s)
“returning customer(s)”	customer(s) who has/have purchased the Company’s services in a given year/period and the preceding full year

GLOSSARY OF TECHNICAL TERMS

“SaaS”	software-as-a-service, a cloud-based software licensing and delivery model in which software and associated data are centrally hosted
“SME”	a small- and medium-sized enterprise with a number of employees under 5,000

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This document contains certain forward-looking statements and information relating to our Company and its subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim”, “anticipate”, “believe”, “can”, “continue”, “could”, “forecast”, “expect”, “going forward”, “intend”, “ought to”, “may”, “might”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals and our ability to successfully implement these strategies, plans, objectives and goals; our ability to identify and integrate suitable acquisition targets;
- general economic, political and business conditions in the markets in which we operate;
- the effects of the global financial markets and economic crisis;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;

FORWARD-LOOKING STATEMENTS

- capital market developments;
- the actions and developments of our competitors;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices in the industry and markets in which we operate;
- certain statements in sections headed “Business” and “Financial Information” in this document with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this document that are not historical facts.

This document also contains market data and projections that are based on a number of assumptions. The markets may not grow at the rates projected by the market data, or at all. The failure of the markets to grow at the projected rates may materially and adversely affect our business and the market price of our Shares. In addition, due to the rapidly changing nature of the China economy and China’s DLM industry, projections or estimates relating to the growth prospects or future conditions of the markets are subject to significant uncertainties. If any of the assumptions underlying the market data prove to be incorrect, actual results may differ from the projections based on these assumptions.

We do not guarantee that the transactions and events described in the forward-looking statements in this document will happen as described, or at all. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risks and uncertainties set forth in the section entitled “Risk Factors” in this document. You should read this document in its entirety and with the understanding that actual future results may be materially different from what we expect. The forward-looking statements made in this document relate only to events as of the date on which the statements are made or, if obtained from third-party studies or reports, the dates of the respective studies or reports. Since we operate in an evolving environment where new risks or uncertainties may emerge from time to time, you should not rely upon forward-looking statements as predictions of future events. We undertake no obligation, beyond what is required by law, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made, even when our situation may have changed.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by the cautionary statements in this section.

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Investing in the [REDACTED] involves a high degree of risk. You should carefully consider all the information set forth in this document and, in particular, the risks and uncertainties described below and all of the other information in this document, including the Accountants’ Report contained in the Appendix I to this document, before making an investment in our [REDACTED]. Our business, financial conditions, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The trading price of our [REDACTED] may decline due to any of these risks and uncertainties, and you may lose all or part of your investment. This document also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

A significant portion of our revenue has been generated from our device recycling business, the gross margin of which is low and the amount of which depends on factors such as customer demand for particular type and condition of devices, which are out of our control.

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. Gross profit margin for our device recycling income increased from 0.1% in 2019 to 6.5% in 2020, decreased to 3.1% in 2021 and further decreased to 2.0% for the six months ended June 30, 2022. Attributable to its trading nature, the gross margins of our device recycling business primarily reflect the difference between the prices at which we procured the de-commissioned devices and at which we subsequently sold them and are therefore lower compared to the gross margins of our subscription business, which are provision of services by nature.

Gross margins of our device recycling business depend on factors which are out of our control, such as customer demand for particular type and condition of devices, the price of IT devices in second-hand market, the demands for replacing de-commissioned devices and growing ESG awareness in China. In addition, we cannot guarantee that the technology adopted by de-commissioned IT devices and devices for subscription we purchase can always satisfy customers’ evolving needs. 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. A shift in our product mix due to the changes in market demand would affect our gross margins and in turn materially affect our results of operations and financial condition.

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Our customers are primarily SMEs which are more susceptible to economic downturn, which would in turn affect our financial performance and future business growth.

Our customers are primarily SMEs from a variety of industries. SMEs, as our target group of customers, may be more sensitive and vulnerable to economic downturns due to their less competitive market position. Adverse economic or industry conditions in the markets in which our customers operate, in particular due to the recent global economic downturn or unforeseen circumstances, may lead to fluctuations in our SMEs customers’ business development, financial performance and liquidity position. Although some market participants are more resilient than others to address the challenges due to business model innovation and competitive position, we cannot guarantee that all of our SMEs customers have those advantages.

In light of the implementation of mass entrepreneurship and innovation policies to support the development of SMEs by the government, the number of SMEs in China has grown at a faster pace over the past few years. However, if a number of our SMEs customers experience severe difficulties in their operations, or if they are unfortunately forced to close down as a result of economic downturn, our financial performance and future business growth could be materially and adversely affected.

Our business, growth and prospects are significantly affected by the usage and demand of DLM solutions and our targeted markets in China.

According to CIC, China’s DLM market is still at an early stage in its development. Whether our potential customers accept DLM depends, to a large extent, on their level of awareness of our DLM solutions and the widespread, global use of DLM. We cannot assure you that the trend of adopting and utilizing DLM solutions by enterprises will continue to grow in the future. In addition, in terms of our targeted markets in China, the future growth of our business depends on (i) the penetration rate of the IT device subscription services market; (ii) level of acceptance of third-party IT technical subscription services providers for device maintenance; (iii) the degree of digitalization for device management among SMEs in China; and (iv) the demands for replacing de-commissioned devices and growing ESG awareness in China. As a result, we cannot predict with certainty the demand for our services or the future growth rate and size of the market for our DLM solutions. If there is a reduction in demand for such services caused by weakening economic conditions, decreases in corporate spending, technical challenges, data security or privacy concerns, governmental regulation, competing technologies and solutions or services or otherwise, our business, growth and prospects will be materially and adversely affected.

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If we fail to maintain and grow our customer base or keep our customers engaged, our business growth will be negatively impacted.

To achieve the sustainable growth of our business, we must continuously dedicate ourselves to expanding our customer base, retaining existing customers and engaging in cross-selling to existing customers. This requires thorough understanding of our customers’ evolving needs in their changing businesses and requires us to maintain a diversified service portfolio in keeping with the continued development of the market to keep our customers engaged. Our ability to achieve renewal of our contracts with existing customers and secure new sales depends on many factors, many of which are outside of our control, including, among others:

- customer satisfaction with our solutions and services;
- the competitiveness of our pricing and payment terms for our customers;
- our ability to tailor our DLM solutions and delivery in accordance with our customers’ evolving demand;
- maintaining the appeal of our marketing tools;
- maintaining stable cooperation relationships with our business partners, including reaching the agreements on commercially reasonable terms;
- competition with the same or similar services and solutions offered by our competitors; and
- the effects of global economic conditions on spending levels of DLM generally.

If our existing customers do not continue to use or increase their use of our services, or if we are unable to attract new customers and to grow our customer base, our DLM business may not grow at a rate we anticipate or at all, which may, in turn, materially and adversely affect our business, results of operations, financial condition and prospects.

Changes and development in the regulatory environment over the industries in which our customers operate could adversely affect the business operations of our customers, thus negatively impacting our own results of operations and financial condition.

We provide DLM solutions primarily to customers engaged in e-commerce, software development, education and training, retails, manufacturing and outsourcing services in China. See “Business – Our Customers” for details. Our customers in these industries, especially SMEs, are vulnerable to changes in the regulatory environment over the industry in which they operate.

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We cannot guarantee that the regulatory environment over the industries in which our customers operate will remain favorable in the future. The government could reduce the amount of tax or policy incentives available to enterprises in these industries, and may even introduce laws and regulations that hinder their further development and expansion. Such material and adverse changes could lead to significant revenue decline, or even the disappearance of certain industries. If any of the above happens to one or more of the industries in which our customers operate, our customers’ business operations and expansions could be materially and adversely affected, leading to significant decline in their needs for DLM solutions. As a result, our results of operations and financial condition could in turn be materially and adversely affected.

We are exposed to credit risk associated with our customers and the recoverability of our trade and lease receivables and IT devices are subject to uncertainties.

We face credit risks attributable to our trade and lease receivables due from our customers. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our trade and lease receivables were approximately RMB47.4 million, RMB37.1 million, RMB53.4 million and RMB58.3 million, respectively. The Group performs impairment assessment under ECL model on trade and lease receivables with credit-impaired individually and collectively using provision matrix for those remaining trade and lease receivables based on shared credit risk characteristics by reference to the aging of outstanding balances. 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. Our trade and lease receivables turnover days decreased from approximately 24.8 days for the year ended December 31, 2019 to approximately 15.1 days for the years ended December 31, 2020, decreased to approximately 12.4 days for the year ended December 31, 2021, and further decreased to approximately 11.8 days for the six months ended June 30, 2022. We cannot assure you that our trade and lease receivables turnover days will not increase, and there is no assurance that our customers, will pay us on time or at all or whether any of them will fall into financial difficulties, thereby affecting their ability to pay us. If significant amounts due to our Group are not settled on time or at all, our financial condition may be materially adversely affected, which will in turn affect our business operations. The bankruptcy or deterioration of the credit condition of any of our major customers could also materially and adversely affect our business.

In addition, we may not be able to effectively control the IT devices provided to our customers under our device subscription services. Since the IT devices we provided to our customers under our device subscription services are moveable properties, we may not be able to effectively control the IT devices provided to our customers under our device subscription services. If we are unable to reclaim actual control or possession of the IT devices, we may be forced to write off such assets on our balance sheet and recognize losses, which could materially and adversely affect our business, results of operations and financial condition. While we have developed a risk control system model that integrates an online intelligent credit profile review system and an offline manual assistance mechanism to assess customers’ credibility and potential risks, we cannot guarantee that such internal controls and procedures

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will always be effective. If we fail to identify material credit risks in advance and dispatch personnel to resolve the problems in a timely manner, we may not be able to reclaim actual possession of the IT devices. As a result, we may need to bring up litigation in certain circumstances which is costly and can impose a significant burden on our management and resources.

We have incurred significant upfront costs for device procurement during the Track Record Period. Failure to manage our liquidity and cash flows or inability to obtain additional financing in the future to purchase device could have a material adverse impact on our business, results of operations and financial condition.

We have incurred significant upfront costs for device procurement during the Track Record Period. A major portion of our devices for subscription were purchased using borrowings from banks and other financial institutions. Our current and non-current borrowing balance was RMB176.3 million, RMB303.6 million, RMB541.6 million and RMB653.5 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. 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%, and 4.0% to 12.0% per annum for the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively. Ranges of effective interest rates of our bank borrowings and finance leases have remained relatively stable during the Track Record Period. In particular, the effective interest rates of our bank borrowings (mostly unsecured) ranged from 5.6% to 7.5%, 5.4% to 8.0%, 5.2% to 8.0%, and 4.0% to 8.0% per annum for the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively, while those of our finance leases ranged from 7.3% to 15.5%, 7.3% to 15.5%, 6.3% to 12.8%, and 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, respectively. As our business scale continues to grow at a faster pace, we may require additional cash resources to finance our continued growth or other future developments, including any investments we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the growth of our business and the amount of cash flow from our operations. Also, the promptness and adequacy of the funding from banks and financial institutions are subject to many external factors beyond our control, including the financial institutions’ prolonged internal procedures. We are also exposed to interest rate risk in relation to restricted deposits, fixed-rate borrowings and lease liabilities. If we cannot obtain sufficient and prompt borrowings from bank and other financial institutions at satisfactory interest rates to fund our business, we may be forced to delay or abandon our growth plans, and our liquidity would be negatively affected, adversely affecting our financial condition, results of operations and growth prospects. Moreover, as we cannot pass on any increase in interest expenses to our customers via adjustment in subscription price, which remain unchanged during subscription period, our results of operations and financial condition may also be adversely affected if we fail to adjust the subscription prices for new agreements accordingly.

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Upon expiry of existing subscription agreements, we may not be able to enter into new device subscription agreements at prices we expected. We cannot adjust the prices at which our devices are subscribed for during their subscription periods.

Prevailing subscription periods pursuant to the agreements under our long-term device subscription business range from 12 months to 36 months. Prevailing subscription periods pursuant to the agreements under our short-term device subscription business are less than three months. Upon expiry of existing subscription agreements, if our customers have no intention to renew the agreements, the relevant devices will be collected from the existing customers and become available for subscription again after the necessary refurbishment. However, we cannot assure you that, when entering into new subscription agreements, the relevant devices can be subscribed for at prices we expected as such prices are subject to factors such as the emergence of devices of newer models, design and functions as well as the demand and supply conditions of devices for subscription in general. We cannot adjust the prices at which our devices are subscribed for during their subscription periods. If our devices available for subscriptions need to be subscribed for at less favorable prices, our results of operations and financial condition may be adversely affected.

Our initiatives to incorporate new technologies may not succeed, which may limit our future growth.

The markets in which we operate and compete are characterized by constant change and innovation, and we expect these markets to continue evolving rapidly. Our ability to attract new customers, retain existing customers and increase the cross-selling of DLM solutions among our service categories depends, to a large extent, on our ability to keep pace with the continued technological development of the market. We cannot guarantee that the technology adopted by de-commissioned IT devices and devices for subscription we purchase can always satisfy customers' evolving needs. In addition, we have invested and planned to continue investing in research and development of our in-house IT system and co-developing customer service portals with our business partners to meet our business needs and support our further development. However, our investment may not lead to positive results and there is no guarantee that we will be able to enhance technology capabilities successfully. For example, we plan to upgrade system infrastructure to improve our operational efficiency, but we cannot assure you that our efforts in development will succeed. Any failure on our efforts may adversely affect our business, results of operations, financial condition and prospects.

We collect, store and process certain business data of our own business and our customers. If our information system security is compromised and such business data is accessed without authorization, our reputation may be harmed, and we may be exposed to potential liability and significant loss of business.

We collect, store and process certain data, including data of our own business in our database and other relevant operating data from our customers. We face risks inherent in handling large volumes of data and in protecting the security of such data. While we have taken steps to protect the confidential information that we have access to, we cannot guarantee the

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effectiveness of these measures in all circumstances. Any accidental or willful security breaches or other unauthorized access to our system could cause confidential information relating to our customers to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, it may lead to the loss of our customers’ data, which in turn our relationships with customers could be severely damaged, we could incur significant liability and our business and operations could be adversely affected. Failure to protect data of our own business would also lead to significant loss of business and adversely affect our results of operation. A security breach could require that we expend substantial additional resources related to the security of information systems and disrupt our business.

The regulatory environment surrounding information security and privacy is increasingly demanding, and it frequently imposes new and changing requirements. The PRC Data Security Law provides a national data security review system, under which data processing activities that affect or may affect national security shall be reviewed, but it does not set forth details on how the data security review will be implemented. On November 14, 2021, the Cyberspace Administration of China, or the CAC, issued the Regulations on the Administration of Cyber Data Security (Draft for Comments), or the Draft Data Security Regulations, for public comments pursuant to which data processors carrying out the following activities must, in accordance with the relevant national regulations, apply for a cybersecurity review: (i) the merger, reorganization or spin-off of internet platform operators that possess a large number of data resources related to national security, economic development and public interests that affect or may affect national security; (ii) listing in a foreign country by data processors that process the personal information of more than one million users; (iii) listing in Hong Kong of data processors that affect or may affect national security; and (iv) other data processing activities that affect or may affect national security. The scope of and threshold for determining what “affects or may affect national security” is still subject to uncertainty and further elaboration by the CAC. On December 28, 2021, the CAC and other twelve PRC regulatory authorities jointly issued the Cybersecurity Review Measures, which require that (i) any procurement of network products and services by critical information infrastructure operators, which affects or may affect national security, or (ii) any data processing activities by network platform operators, which affect or may affect national security, or (iii) any network platform operator which has personal information of more than one million users and is going to be listed in a foreign country, shall be subject to cybersecurity review. Since the measures were recently promulgated, there are uncertainties with respect to their interpretation and implementation. In anticipation of the strengthened implementation of cybersecurity laws and regulations and the continued expansion of our business, we cannot rule out the possibility that we may be deemed to be a “critical information infrastructure operator” or a “network platform operator” that affects or may affect national security under the Cybersecurity Review Measures. If that were to happen, we would be required to follow cybersecurity review procedures. In addition to laws, regulations and other applicable rules regarding data privacy

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and cybersecurity, industry associations may propose new and different privacy standards. As a result, any actual or alleged failure to comply with the evolving data privacy and protection laws and regulations could damage our reputation and negatively affect our business operation and financial position.

Our historical growth rates may not be indicative of our future growth. If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

We experienced fast growth in our revenue during the Track Record Period. In 2019, 2020 and 2021, our revenue was RMB500.3 million, RMB1,022.2 million and RMB1,330.4 million, respectively, representing a CAGR of 63.1%. Furthermore, our revenue increased by 59.1% to RMB854.0 million for the six months ended June 30, 2022 from RMB536.9 million for the same period in 2021. We cannot assure you that we are able to sustain our historical growth rate for various reasons, including uncertainty of our continuous offerings of quality services to attract new customers, failure of our marketing strategies and intensified competition within the DLM and targeted markets in China.

In addition, we plan to continue to invest substantial financial, management and operational resources to sustain our growth. However, we cannot assure you that we will be able to continually obtain these resources in the future. For instance, we may not be able to obtain additional internal and external capital to support our business growth on commercially acceptable terms, or to retain and attract sufficient number of competent staff to support our business development.

Our revenue, expenses and operating results may vary from period to period due to various factors beyond our control, including the economic growth, development of DLM industry, as well as changes in laws, regulations and rules applicable to the DLM industry in China. Any unfavorable change in the factors above may prevent us from maintaining our historical growth rate. As a result of these, and other factors, we cannot assure you that our future revenues will increase or that we will continue to be profitable. Accordingly, investors should not rely on our historical results as an indication of our future financial or operating performance.

We have incurred accumulated losses and net losses during the Track Record Period.

We have incurred accumulated losses and net losses during the Track Record Period. 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, primarily due to (i) the fair value changes of financial liabilities at fair value through profit or loss and (ii) the increase in distribution and selling expenses due to the increase in salaries and welfare of our sales and marketing team and customer acquisition expenses paid to our business partners. We recorded losses on fair value changes of financial liabilities measured at fair value through profit or loss of RMB10.1 million, RMB189.7 million, RMB433.9 million and RMB278.2 million in 2019, 2020 and 2021 and for the six

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months ended June 30, 2021, which were mainly driven by the increased valuation of our Company. 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 and 2021 and for the six months ended June 30, 2021 and 2022 were primarily attributable to 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 can not guarantee that we will not incur losses again in the future. Our ability to achieve profitability depends largely on, among other factors, our ability to successfully enhance customer stickiness and grow our customer base, manage our device utilization, manage costs and increase operational efficiencies. If we are unable to generate adequate revenues or effectively manage our costs and expenses, we may continue to incur losses in the future and may not be able to achieve or subsequently maintain profitability.

We recorded net current liabilities during the Track Record Period and may not generate sufficient cash flows in the future to finance our operations or satisfy our current liabilities. We recorded net liabilities as of December 31, 2020 and 2021 and June 30, 2022.

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 (portion repayable within one year being classified as current liabilities). Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debts when they become due will primarily depend on future operating and financial performance, including our ability to maintain adequate cash inflows from operating activities and our ability to obtain adequate financing. Our future performance will be impacted by prevailing economic conditions and a range of other business and competitive factors which are beyond our control. Therefore, there is no assurance that we will not experience net current liabilities in the future. The net current liabilities position would expose us to liquidity risk which could restrict our ability to make necessary capital expenditure or develop business opportunities, and our business, operating results and financial condition could be materially and adversely affected. There is also no assurance that we will always have adequate funds to meet our repayment obligations, or that our historical net current liabilities will not impair our ability to obtain new borrowings to finance our operation or capital commitments. In such circumstances, our business, financial position, results of operations and prospects may be materially and adversely affected.

We recorded 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 fair value of investment by the Pre-[REDACTED] Investors, which were recognized as financial liabilities at fair value through profit or loss. For details, please see “Financial Information – Indebtedness – Financial liabilities at FVTPL.” The series of investments as of June 30, 2022 have been converted to the Company’s Preferred Shares as part of the

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reorganization and will be converted into equity upon the [REDACTED]. There can be no assurance that we will not experience liquidity problems in the future. A net liabilities position can expose us to the risk of shortfalls in liquidity. This in turn would require us to seek adequate financing from sources such as external debt, which may not be available on terms favorable or commercially reasonable to us or at all. Any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our prospects.

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.

We had gross loss for our device subscription services in 2019 of RMB14.3 million primarily due to lower prices offered to our customers to expand our device subscription services. We generally recognize revenue from device subscription services and IT technical subscription services over time by reference to the progress towards complete satisfaction of the relevant performance. When we provide IT technical subscription services couple with our device subscription services, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. It represents the price at which the Group would sell a promised good or service separately to a customer. These subscription fees do not change in line with the actual amount of costs we incur in connection with such services. We recognise the full amount of subscription fees we charge customer as our revenue, and recognize the actual costs we incur in connection with rendering our services as our cost of sales and services. We cannot assure you that our existing and future device subscription services will achieve the anticipated level of demand and we may incur loss if our revenue from device subscription services is unable to offset our costs of such services. Further, customers may not choose or continue to use our device subscription services if our competitors offer superior and more customer-friendly products and services. If any of the above occur, it may materially and adversely affect our results of operations, financial condition and prospects.

We had experienced significant fluctuations in our gross profit margins for three service categories during the Track Record Period. Gross profit margin for our device recycling income increased from 0.1% in 2019 to 6.5% in 2020, decreased to 3.1% in 2021, and further decreased to 2.0% for the six months ended June 30, 2022. Gross margins of our 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. Attributable to its trading nature, the gross margins of our device recycling business primarily reflect the difference between the prices at which we procured the de-commissioned devices and at which we subsequently sold them and are therefore lower compared to the gross margins of our subscription business, which are provision of services by nature. Gross profit margin for our device subscription services increased from minus 17.4% in 2019 to 4.5% in 2020, increased to 23.2% in 2021, and further increased to 24.7% for the six months ended June 30, 2022. Gross profit margin for IT technical subscription services decreased from 81.6% in 2019 to 80.3% in 2020, decreased to 72.9% in 2021, and further decreased to 69.2% for the six months ended June 30, 2022. For

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details of the reasons for the fluctuations of gross profit margins, please refer to “Financial Information – Discussion of Results of Operations.” There can be no assurance that we will be able to maintain and secure the gross profit margins at the levels recorded during the Track Record Period. In addition, our gross profit margin for three services categories may decline to a material extent for other reasons, including decreasing consumer spending, increasing competition, and changes in government policies or general economic conditions which are, to a large extent, beyond our control. Accordingly, we cannot guarantee that our gross profit margins will not fluctuate from time to time. If there is any decline in our gross profit margins in the future or if we fail to sustain the relatively high gross profit margin, our profitability and financial condition may be adversely affected.

We may not be able to conduct our sales and marketing cost-effectively and we cannot guarantee that our cost control strategies and measures will be continually and effectively executed in the future and achieve their expected effects.

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. See “Business – Sales and Marketing – Marketing and Branding” for details. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, our distribution and selling expenses was RMB73.0 million, RMB78.2 million, RMB115.9 million, RMB50.5 million and RMB64.9 million, respectively. Our efforts to market our brand have incurred significant costs and expenses and we intend to continue to do so. We cannot assure you, however, that our distribution and selling expenses will lead to increasing revenue, and even if they did, such increases in revenue might not be sufficient to offset the expenses incurred. Additionally, our brand promotion and marketing activities may not be well received by customers and may not result in the levels of sales that we anticipate. If we fail to conduct our sales and marketing activities in a cost-effective way, we may incur considerable marketing expenses, which could adversely affect our business and operating results. We may need to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and customer preferences. Failure to introduce new marketing approaches in a cost-effective manner could reduce our market share and materially and adversely affect our financial condition, results of operations and profitability.

In addition, we cannot guarantee that our cost control strategies and measures will be continually and effectively executed in the future and achieve their expected effects. Our continued growth depends on our ability to enhance cost control and improve operational efficiency. However, we cannot guarantee that measures we implement will continue to be effectively executed in the future, or that we can continue to maintain or increase our net profit margin in the future. In addition, we may be required to adjust the relevant cost control strategies and measures in response to the changes in economic condition and business development needs. If such control strategies and measures fail to achieve their expected effects, our operating costs may increase, which in turn may adversely affect our business, financial condition and results of operations.

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Our results of operations, financial condition and prospects may be adversely affected by fair value changes of financial liabilities at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs.

In 2019, 2020 and 2021, we recognized fair value loss of financial liabilities at fair value through profit or loss of RMB10.1 million, RMB189.7 million and RMB433.9 million, respectively, and gain of RMB36.4 million for the six months ended June 30, 2022, primarily attributable to the investments by our Pre-[REDACTED] Investors. Our Group applied the backsolve method and discounted cash flow method to determine the underlying equity value of LX Technology and adopted equity allocation model based on the Black-Scholes option pricing model involving various parameters and inputs to determine the fair value of the financial liabilities at fair value through profit or loss, which was classified as level 3 fair value measurement for financial reporting purpose. Some inputs, such as possibilities under different scenarios, including 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. The significant unobservable inputs used in the fair value measurement is expected volatility value. An increase in expected volatility value would result in a slight change in fair value, and vice versa.

Therefore, the valuation of fair value change of financial liabilities at fair value through profit or loss are subject to uncertainties in estimations. Such estimated changes in fair values involve the exercise of professional judgment and the use of certain bases, assumptions and unobservable inputs, which, by their nature, are subjective and uncertain. It may lead to changes in the fair value of financial liabilities at fair value through profit and loss, and changes in such fair value may affect our financial performance. In addition, the valuation methodologies may involve a significant degree of management judgment and are inherently uncertain, which may result in material adjustment to the carrying amounts of certain liabilities and in turn may materially and adversely affect our results of operations. As such, the financial liabilities at fair value through profit or loss valuation has been, and will continue to be, subject to uncertainties in estimations, which may not reflect the actual fair value of these financial assets and result in significant fluctuations in profit or loss from year to year. 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.

Failure to accurately forecast market demand may result in excessive or insufficient IT devices in inventory or property, plant and equipment, which could lead to inventory obsolescence, increase our costs or cause us to lose sales opportunities.

Incorrect forecasting of demand in the future could result in us experiencing an excess or a shortage of inventory and property, plant and equipment. With respect to device recycling business, there may be risks of excess inventory level. The failure to manage the increase in our inventories or accurately forecast the demand of our customers may result in obsolescence of our inventories and adversely affect the result of our business operations. Our inventories

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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. In addition, the price of IT devices in second-hand market fluctuates and may have a great impact on the gross profit of our device recycling business. With respect to device subscription services, there may be risks of excess property, plant and equipment. In 2019, 2020 and 2021 and for the six months ended June 30, 2022, our property, plant and equipment accounted for 52.1%, 54.5%, 62.4% and 60.4% of our total assets, respectively. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the average monthly utilization rates of our major types of device for subscription were 83.4%, 83.7%, 84.9%, 83.5% and 81.7%, respectively. Therefore, maintaining optimal inventory levels and carrying amounts of property, plant and equipment are critical to our financial condition and results of operations. We are exposed to risks as a result of a variety of factors beyond our control, including changing consumption trends and preferences and product generation replacement due to technological development. What’s more, due to the COVID-19 outbreak, the lead times between ordering and delivery were prolonged, which made it more difficult to accurately forecast demand. We cannot assure you that we can accurately predict these trends and events and maintain adequate levels of inventory and property, plant and equipment at all times. If orders do not match actual demand, we could have higher or lower anticipated stock levels and this could lead to higher interest charges or less interest income, price reductions, inventory obsolescence or write downs of slow moving or excessive stock resulting in lower profits.

We assess impairment to inventories at each period end during the Track Record Period, and may make provision to write down our inventories to the net realizable value if they become obsolete, out-of-season or are damaged or their prices went down and their net realizable value is lower than the costs, or reduce the recoverable amount of property, plant and equipment if the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount. However, we cannot assure you that we will not experience material write-offs in the future. If we cannot manage our inventory level efficiently in the future, it could increase our costs or cause us to lose sales opportunities, and our liquidity and cash flow may be adversely affected.

If we need to recognize significant impairment losses on other receivables, deposits and prepayments, our results of operations and financial condition may be adversely affected.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our other receivables, deposits and prepayments amounted to RMB80.2 million, RMB135.6 million, RMB140.7 million and RMB136.9 million, respectively. Our VAT receivables as of December 31, 2019, 2020 and 2021 and June 30, 2022 were RMB42.8 million, RMB68.9 million, RMB85.1 million and RMB90.5 million, amounting for 53.3%, 50.8%, 60.5% and 66.1%, respectively, of our other receivables, deposits and prepayments in the same periods. Our VAT receivables continuously increased during the Track Record Period as a result of the significant increase in purchase of equipment for subscription in response to increasing demand for our device

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subscription services. We cannot assure you that our VAT receivables will not increase. If we need to recognize significant impairment losses on other receivables, deposits and prepayments, our results of operations and financial condition may be adversely affected.

We may face risk regarding the recoverability of deferred tax assets.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our deferred tax assets amounted to RMB9.6 million, RMB7.7 million, RMB5.5 million and RMB6.8 million, respectively. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. For details of the movements of our deferred tax assets during the Track Record Period, please see note 16 in Appendix I to this document. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee the recoverability or predict the movement of our deferred tax assets. In the case that the value of the deferred tax assets has changed, our Group may have to write-down the deferred tax assets, which may significantly affect our expenditure, profit and loss and financial condition in that respective year/period.

We have adopted employee incentive plans, which would dilute shareholding interest and lead to share-based compensation expenses that may negatively impact our profitability.

We have adopted employee incentive plans, including LX Brothers Employee Incentive Plan, Beauty Bear Employee Incentive Plan and Restricted Share Award Scheme, with details set forth in “Statutory and General Information – D. Employee Incentive Plans” in Appendix IV to this document. We recognized share-based payments expense of RMB23.6 million during the Track Record Period. Any newly granted restricted share award(s) under the share incentive plans, options, or any other share-based compensations that we may grant from time to time may result in an increase in our issued share capital, which in turn may result in a dilution of our shareholders’ shareholding interest in our Company and a reduction in earnings per Share.

In addition, as a result of the Shares to be issued under the employee incentive plans, we expect to incur share-based compensation expenses in the future. As a result, we will recognize expenses in our consolidated statements of profit or loss and other comprehensive income, which may have a material adverse effect on our net income. The expenses associated with share-based compensation will decrease our net profit and the additional shares issued will dilute the ownership interests of our shareholders.

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We may be subject to additional contributions of social insurance and housing provident fund and late payments and fines imposed by relevant governmental authorities.

As advised by our PRC Legal Advisor, an employer that has not made social insurance contributions at a rate and based on an amount prescribed by the law, or at all, may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late payment fee of up to 0.05% per day. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times of the amount overdue.

During the Track Record Period and up to the Latest Practicable Date, we did not make full social insurance and housing provident fund contribution for our employees in strict compliance with relevant laws and regulations. We have not received any notice or penalty from the relevant government authorities or any claim or request from these employees in this regard. For details, see “Business – Employees.”

However, we cannot assure you that the relevant government authorities will not require us to pay the outstanding amount and impose late payment fees or fines on us. If we are otherwise subject to investigations related to non-compliance with labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

Our failure to provide quality services and may materially and adversely impact our brand, business and financial results, and our customers may lose confidence in us.

Our IT devices provided to customers for subscription may contain quality issues, technical problems, security vulnerabilities, hardware or software issues that are difficult to detect or correct until their deployment, particularly when first introduced or when new versions or enhancements are released. Despite internal testing, our platform may contain quality issues, or hardware and software issues which we are unable to successfully correct in a timely manner or at all, which could result in diversion of significant resources to analyse, correct, address and eliminate the issues. This may also result in revenue loss, significant expenditures of capital, a delay or loss in market acceptance and damage to our reputation and brand, any of which could have an adverse effect on our business, reputation, financial condition, and results of operations.

In addition, the success in our business and retention and expansion of our customer base depends on our ability to maintain a consistently high level of services and technical support, which requires that our IT technicians have specific knowledge and expertise. We provide door-to-door delivery, installation, repair and maintenance services with our own service team in core cities such as Beijing, Shanghai, Guangzhou and Shenzhen. In areas outside the core cities, we cooperate with local service providers to conduct maintenance to the IT devices under our device subscription services. We have invested in training our IT technical staff and improving the quality of our customer services. However, if we are unable to hire and train a

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sufficient number of support staff to provide effective and timely support to our customers for reasons such as budgetary constraints and employee losses, or if our local service providers fail to provide quality customer services, our customers' satisfaction with our solutions and services may be adversely affected, resulting in reduced customer spending, customer complaints or negative publicity which will adversely affect our reputation and materially and adversely affect our business, results of operations, financial conditions and prospects.

We may not be able to maintain the pricing terms for our services or retain our customers at favorable prices. In addition, we may not be able to compete successfully against our existing and future competitors.

We may need to decrease prices of our services to stay competitive. As the markets for our services mature, or as new competitors introduce new services that compete with ours or adopt more aggressive pricing policies, we may be unable to attract new customers at the same price or based on the same pricing model as we have adopted historically. As a result, in the future we may be required to reduce our prices, which could materially and adversely affect our results of operation and financial condition.

Our customers have no obligation to renew their subscriptions for our services after expiration of the initial subscription period or IT technical subscription services for our DLM solutions on our desired terms. Our customers may renew for fewer IT devices of our services or on pricing terms less favorable to us which may lead to the decline of our customer retention rates. Our customers' retention rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our pricing or our services, and their ability to continue their operations and spending levels. In addition, over time the average term of our contracts could change based on retention rates or for other reasons. If our customers do not renew their subscriptions for our services on similar terms, our revenues may decline, and our business, results of operations and financial condition may be materially and adversely affected.

We operate in a competitive market and may not be able to compete successfully against our existing and future competitors.

We face competition in various aspects of our business in the DLM industry, including research and development capabilities, customer bases and services, talents, brand awareness, commercial relationships and financial, technical, marketing and other resources. Even though we have accumulated years of experience and comprehensive resources in the industry, our competitors may be able to develop services better received by DLM users or may be able to devote greater resources to the research and development of DLM, respond more quickly and effectively to new opportunities and changing technologies, regulations and customers' needs. In addition, some of our competitors may quickly expand their existing customer base and sales network and adopt more aggressive pricing policies and offer more attractive sales terms. This could cause us to lose potential sales or compel us to sell our solutions and services at lower prices to remain competitive, which may have a material adverse impact on our results of operation and financial condition.

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We may be subject to intense competition if any of our competitors enters into business partnerships or alliances or raises significant capital, or if established companies from other market segments or geographical markets expand into our market segment or geographical market. Any existing or potential competitor may also choose to operate based on a different pricing model or lower their price in order to increase their market share. If we are unable to compete successfully against our current or potential competitors, our business, financial condition and results of operations may be materially and adversely impacted.

Our brand is integral to our success. If we fail to effectively maintain, promote and enhance our brand, our business and competitive advantage may be harmed.

We believe that maintaining, promoting and enhancing our brand is critical to maintaining and expanding our business. Maintaining and enhancing our brand depends largely on our ability to continue to provide quality DLM solutions, which we cannot assure you we will do successfully. Quality issues, technical problems, security vulnerabilities, hardware or software issues with our IT devices may harm our reputation and brand, and we may introduce new services which might be poorly received by our customers. Additionally, if our customers have a negative experience using our services, such an encounter may affect our brand and reputation within the industry. What’s more, we believe the importance of brand recognition will increase as competition in our market increases. In addition to our ability to provide reliable and useful DLM solutions at competitive prices, the successful promotion of our brand will also depend on the effectiveness of our marketing efforts. We cannot assure you that our marketing spends will lead to increased revenue, and even if so, such increases in revenue may not be sufficient to offset expenses we incur in building and maintaining our reputation and brand name.

We may not be able to repay our debts, and we may incur more debts.

We expect to continue to maintain a significant level of indebtedness. Our current and non-current borrowing balance was RMB176.3 million, RMB303.6 million, RMB541.6 million and RMB653.5 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. We may not be able to satisfy our payment obligations due to several reasons, including (i) our customers’ failure to pay us on time; (ii) our inability to properly manage cash flow; and (iii) a general decline in our business volume and operations. Our creditors also have the right to require further security or collateral if the value of collateral declines. If any of the abovementioned events happens, we may not be able to fully perform our obligations under the agreements, and may incur penalty costs or damages to our liquidity position, which could materially and adversely affect our results of operations and financial condition. Furthermore, failure to repay debts may negatively affect our credit ratings, which will cause our financing costs to increase and weaken our fundraising capabilities, further affecting our liquidity position and financial condition.

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Negative publicity and allegations involving us, our shareholders, directors, officers, employees, associates and business partners may affect our reputation and, as a result, our business, financial condition, and results of operations may be negatively affected.

We rely on the market recognition of our services. We believe that business growth depends heavily on the customers’ perception of us and we anticipate that we will continue to rely on market recognition of our services in our future business. If we fail to promote our business or to maintain or enhance the recognition and awareness of our business among our customers, or if we are subject to incidents or allegations adversely affecting our image or our publicly perceived position, our business, results of operations, financial conditions and prospects could be adversely affected. In addition, to the extent our employees and business partners were incompliant with any laws or regulations, we may also suffer negative publicity or harm to our reputation. As a result, we may be required to spend significant time and incur substantial costs in response to allegations and negative publicity, and our business, financial condition, and results of operations may be negatively affected.

We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from any unauthorized use of our technologies.

Our trade secrets, trademarks, software copyrights, and other intellectual property rights are critical to our success. We rely on, and expect to continue to rely on, unfair competition laws and contractual rights, such as confidentiality agreements with our employees and third parties with whom we have relationships to protect our intellectual properties. However, these agreements may be inadequate or may be breached, either of which could potentially result in unauthorized use or disclosure of our trade secrets and other proprietary information to third parties, including our competitors. As a result, we may lose our crucial competitive advantages derived from such intellectual property. Significant impairments on our intellectual property rights may result in a material and adverse effect on our business. In addition, events beyond our control may pose threats to our intellectual property rights, as well as to our brand. Effective protection of our trademarks, software copyrights, domain names, and other intellectual property rights is expensive and difficult to maintain, both in terms of application and costs, as well as the costs of defending and enforcing those rights. Therefore, we cannot assure you that our protection efforts are effective or sufficient to guard against any potential infringement and misappropriation, which could result in them being narrowed in scope or declared invalid or unenforceable.

We may be subject to claims by third parties for intellectual property infringement.

We depend to a large extent on our ability to effectively develop and maintain intellectual property rights relating to our business. However, we cannot assure you that our competitors and other third parties will not bring legal claims against us for infringing on their patents, copyrights, trademarks or other intellectual property rights, whether such claims are valid or otherwise. The intellectual property laws in China, which cover the validity, enforceability and scope of protection of intellectual property rights, are evolving, and litigation is becoming a

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more commonly pursued method for resolving commercial disputes. Given the foregoing and the increasing competition in the market, we are exposed to a higher litigation risk. Any intellectual property lawsuits against us, whether successful or not, may harm our brand and reputation.

Defending against intellectual property claims is costly and can impose a significant burden on our management and resources. Further, there is no guarantee that we can obtain favorable judgment in all legal cases, in which case we may need to pay damages or be forced to cease using certain technologies or content that are critical to our services. Any resulting liabilities or expenses or any changes to our services that we have to make to limit future liabilities may have a material adverse effect on our business, results of operations and prospects.

We are subject to risks relating to litigation and disputes, which could adversely affect our business, prospects, results of operations and financial condition.

We may be subject to disputes or claims of various types brought by our competitors, employees, suppliers, customers, business partners or governmental entities against us relating to contractual disputes, labor disputes, intellectual property infringements or disputes involving misconducts of our employees. Such claims and disputes may evolve into litigations and damage our reputation and goodwill, thereby adversely affecting our customer base. For example, we were involved in certain lawsuits in relation to labor disputes initiated by our former employees during the Track Record Period and up to the Latest Practicable Date. See “Business – Employees.” We cannot guarantee that we will not be subject to such legal proceedings in the ordinary course of business. Litigation is distractive and expensive as it may cause us to incur defense costs, utilize a significant portion of our resources and divert management team’s attention from our day-to-day operations, any of which could harm our business. In addition, we may need to spend a significant amount to settle claims or pay damages if we lose a lawsuit, which could have a material and adverse effect on our business, financial condition and results of operations.

We are dependent on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

Our future performance depends on the continued services and contributions of our senior management, and other key employees, to oversee and execute our business plans and identify and pursue new opportunities and innovations. Any loss of service of our senior management or other key employees could significantly delay or prevent us from achieving our strategic business objectives, and adversely affect our business, financial condition and operating results. We cannot guarantee you that we will not experience such problems in the future. From time to time, there may be changes in our senior management team, resulting from the hiring or departure of executives, which could also disrupt our business. Hiring suitable replacements and integrating them within our business also require significant amounts of time, training and resources, and may impact our existing corporate culture.

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Our results of operations are subject to seasonal fluctuations.

We have experienced, and expect to continue to experience, seasonality in our business. For details, see “Business – Seasonality.” During the Track Record Period, we recorded higher revenue generation in the second half than in the first half of a year, especially on our device recycling business which accounted for a relatively large proportion of our revenue during Track Record Period. This is mainly attributable to the tendency that most of enterprise and also our suppliers make close-to-year-end disposal plans to match with their recruitment schedules, which results in higher IT device recycling demands in the second half of a year. As a result, our revenue and business performance may vary considerably from periods to periods. The comparison of revenue and operating results from different periods in any given financial year may not be relied upon as indicators of our performance. Should there be any adverse change in the tendency of disposal plans or other market trends, we may not be able to dispose the purchased IT devices in a timely manner. As a result, our profitability, results of operation and business may be adversely affected.

If we are unable to attract, retain and motivate qualified talents, our business may be adversely affected.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled talents specializing in research and development and marketing, particularly with experience in the DLM market in China. In order to enhance the stability of our team, we have devoted to building a nurturing corporate culture and offered various incentives and trainings to our highly skilled talents. Nevertheless, we cannot assure you that we can attract or retain qualified talents. The inability to do so or delays in hiring required talents may cause significant harm to our business, financial condition and operating results. We may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth, thereby materially and adversely affecting our business, financial condition, results of operations and prospects.

Meanwhile, the size and scope of our business may require us to hire and retain a wide range of effective and experienced personnel who can adapt to a dynamic, competitive and challenging business environment. Competition for talent and qualified talents in the PRC DLM and targeted markets is intense. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. In addition, even if we were to offer higher compensation and other benefits, we cannot assure you that these individuals would choose to join, or continue working for us. If we fail to attract and retain talents with suitable managerial or other expertise, or to maintain an adequate labor force on a continuous and sustained basis, our financial position and results of operations could be materially and adversely affected.

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Any discontinuation, reduction or delay of any government grants, tax refund, or preferential tax treatments would have a material and adverse impact on our business.

During the Track Record Period, we received government subsidies of RMB3.8 million, RMB10.8 million, RMB10.7 million, RMB3.9 million and RMB5.3 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively, primarily in the form of industry-specific subsidies granted by the local government authorities in China to encourage research and development projects and high-tech enterprises. In addition, we have benefited from preferential tax treatments from the PRC government during the Track Record Period. 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. Certain subsidiaries were qualified as “Small Low-profit Enterprise” and were subject to preferential income tax rate. According to a policy promulgated by the State Tax Bureau of the PRC and the Ministry of Finance of the PRC and effective from 2018 onwards, enterprises engage in research and development activities are entitled to claim 75% or 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. We cannot assure you that we will continue to receive government grants at the same level or at all, or that we will continue to enjoy the current preferential tax treatments, in which case our business, financial condition and result of operations may be materially and adversely affected.

We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, financial conditions, results of operations and prospects may be materially and adversely affected should any such liability or losses arise.

We face various risks in connection with our business, and may lack adequate insurance coverage or have no relevant insurance coverage. Insurance companies in China do not currently offer as extensive an array of insurance products as insurance companies in other more developed economies do. As such, we cannot insure against certain risks related to our assets or business even if we desire to.

As of the Latest Practicable Date, we had not obtained any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring against these risks, and the difficulties associated with acquiring such insurances on commercially reasonable terms render these insurances impractical for our business. However, any uninsured occurrence of including, among others, business disruption, material litigation, natural disaster or significant damages to our uninsured devices or facilities may result in our incurring substantial costs and the diversion of resources, which could have a material adverse effect on our business and results of operations. What’s more, our current insurance coverage may not be sufficient to prevent us from any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If

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we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition, results of operations and prospects could be materially adversely affected.

We may be liable for failure to register and file our lease agreements, which may subject us to penalties.

Pursuant to the Measures for Administration of Lease of Commodity Properties (商品房屋租賃管理辦法), both lessors and lessees are required to file the lease agreements for registration and obtain property leasing filing certificates for their leases. As of the Latest Practicable Date, ten of our leased agreements had not been registered and filed with the competent PRC government authorities as required by applicable PRC laws and regulations. See “Business – Land and Properties – Leased Properties.” We cannot assure you that the lessors will cooperate and complete the registration in a timely manner. Our PRC Legal Advisor has advised us that failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements under PRC laws or impede our use of the relevant properties, but we may be subject to a maximum penalty of RMB10,000 for each non-registered lease if we fail to register such lease agreements within the time frame prescribed by the relevant PRC government authorities. As a result, any imposition of fines due to such failure may adversely affect our business operations and financial condition.

We may incur additional costs as a result of any dispute or claim arising from the title defects of our leased properties.

As of the Latest Practical Date, lessors of four lease properties were unable to provide valid ownership certificates or other sufficient ownership documents evidencing the right to lease the property to us. As a result, we cannot continue to use such properties if the lessors’ rights to lease such properties are successfully challenged by any third party. We primarily use these leased properties as offices or warehouses. See “Business – Land and Properties – Leased Properties.” Any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving allegations of illegal or unauthorized use of these properties, could require us to relocate our offices. If any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. If we fail to find suitable replacement properties on terms acceptable to us, or if we are subject to any material liability resulting from third-party challenges for our lease of properties for which we or our lessors do not hold valid title certificates or authorizations, such may adversely affect our business, financial position, results of operations and growth prospects.

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We may not be able to renew our current leases or locate desirable alternatives for our offices and warehouses.

We lease commercial properties as our offices and warehouses, and we may not be able to extend or renew such leases on commercially reasonable terms, or at all, as we will have to compete with other businesses for premises at desired locations. Rental payments may significantly increase as a result of the high demand for the leased properties. Moreover, we may not be able to extend or renew such leases upon expiration of the current term and may therefore be forced to relocate the affected operations. This could disrupt our operations and result in significant relocation expenses. We may not be able to locate desirable alternative sites for our offices and warehouses. For the leased sites registered as the address of our PRC subsidiaries, we may face the risk of being included in the list of enterprises with abnormal business operations if we fail to extend such leases or relocate the registered address and file such leases with the local authorities. The occurrence of such events could materially and adversely affect our business, financial condition, results of operations and prospects.

Any non-compliance with applicable anti-bribery and anti-corruption laws, economic sanctions and other forms of illegal acts and misconduct by our employees, customers or suppliers may materially and adversely affect our business operations.

We may be exposed to bribery, corruption, economic sanctions or other illegal acts and misconduct committed by our employees, customers, suppliers or any other third parties that could subject us to financial losses and sanctions imposed by governmental authorities, which may adversely affect our reputation. While we have adopted and implemented internal controls and procedures to monitor both internal and external compliance with anti-bribery and anti-corruption laws, regulations and policies, we cannot guarantee that such internal controls and procedures will always be effective in preventing non-compliance and exculpating us from penalties or liabilities that may be imposed by relevant government authorities due to violations committed by our employees. If our employees are found or alleged to have violated anti-bribery or anti-corruption laws and regulations, we may face or be involved in fines, lawsuits and damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in international trade or investment policies and barriers to trade or investment, the ongoing trade dispute between the U.S. and China may have an adverse effect on our business.

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs, or the perception could adversely affect the financial and economic conditions in the PRC, as well as our financial condition and results of operations. China has implemented, and may further implement, measures in response to new trade policies, treaties and tariffs initiated by the U.S. government.

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Certain components of the IT devices we leased to our customers may be purchased from the U.S. If the Chinese government imposes additional tariffs on the IT devices with the U.S. as its country of origin, our costs will increase. The business of our key customers and business partners in the PRC will also be affected. In addition, any further escalation in trade tensions between China and the United States or a trade war, or the perception that such escalation or trade war could occur, may have negative impact on the economies of not only the two countries concerned, but the global economy as a whole. As a result, our business, financial condition, results of operations and prospects would be adversely affected.

Any future occurrence of a natural disaster, health epidemic or similar development could have a material adverse effect on our business. In particular, the COVID-19 outbreak had and may continue to have a negative impact on our business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza, Ebola virus and the recent COVID-19 outbreak and other regions across China, may materially and adversely affect our business, financial condition and results of operations. In recent years, there have been outbreaks of epidemics in China and globally. For example, in early 2020, in connection with the intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included canceling public activities, among others. As a result, certain of our short-term device subscription services under discussion with our customers for exhibitions and conferences and other business activities have been canceled or postponed, which led to delays in revenue recognition. In addition, as the business condition of our customers has been affected by COVID-19 outbreak, they may choose not to renew their subscriptions for our services, renegotiate the price terms under the current service agreements with us or even breach the service agreement. The extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable and may continue to have a negative impact on our business, financial condition and results of operations.

We may not be able to obtain additional funding on acceptable terms or at all, which may affect our ability to expand our business or meet unforeseen contingencies.

To grow our business and remain competitive, we may require additional capital from time to time for our daily operations. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the industries in which we operate;
- our future profitability, overall financial condition, results of operations and cash flows;

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- general market conditions for capital-raising activities by our competitors in China; and
- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms, or at all. In addition, our future capital or other business needs could require us to sell additional equity or debt securities, or to obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our shareholders’ shareholdings. Any incurrence of indebtedness will also lead to increased debt service obligations, and could result in operating and financing covenants that may restrict our operations or our ability to pay dividends to our shareholders.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Adverse changes in the economic, political and social conditions, as well as policies of the PRC government, could have a material adverse effect on our business and prospects.

Substantially all of our revenue was derived from our businesses in the PRC during the Track Record Period. Accordingly, our business, financial condition, results of operations and prospects are, to a material extent, subject to economic, political, and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, control of foreign exchange, and resource allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for the past four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the DLM industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

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The PRC legal system has potential uncertainties that could limit the legal protections available to our business and our shareholders.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our PRC subsidiaries are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new, and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform, and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Further, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China, could materially and adversely affect our business and impede our ability to continue our operations, and may further affect the legal remedies and protections available to investors, which may, in turn, adversely affect the value of your investment.

PRC laws and regulations concerning the DLM industry are developing and evolving. In addition, the PRC government authorities may promulgate new laws and regulations regulating the DLM industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to DLM. Moreover, developments in the DLM industry may lead to changes in PRC laws, regulations and policies, or in the interpretation and application of existing laws, regulations and policies that may limit or restrict DLM platforms like ours, which could materially and adversely affect our business and operations.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other established regulations and rules concerning mergers and acquisitions,

RISK FACTORS

as well as additional procedures and requirements, could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements, in some instances, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the SAMR shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the General Office of the State Council and MOFCOM in 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns, and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns, are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders, and have a material adverse effect on our results of operations and the value of your investment.

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered as a resident enterprise, and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over, and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those that are not controlled by PRC enterprises or PRC enterprise groups like us, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China, and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC, (ii) decisions relating to the enterprise’s financial and human resource matters are made, or are subject to approval by organizations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books, and records, company seals, and board and shareholder resolutions are located or maintained in the PRC, and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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However, the tax-resident status of an enterprise is subject to determination by the PRC tax authorities, and uncertainties remain with respect to the interpretation of the term “de facto management body.” As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply in our case. If the PRC tax authorities determine that our Company, or any of our subsidiaries outside of China, is a PRC resident enterprise for PRC enterprise income tax purposes, then our Company or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Further, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our Shares.

You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.

Under the EIT law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are “non-resident enterprises,” which do not have an establishment or place of business in China, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. For details, see “Regulatory Overview – Regulations Relating to Tax – Enterprise Income Tax.”

Under PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise as described above, dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within China and as a result be subject to the PRC income taxes described above. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected.

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

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

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

The PRC government’s control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenue in RMB. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments, indirectly from our PRC subsidiaries, to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE by complying with certain procedures under PRC foreign exchange regulation. However, approval from, or registration with, appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows from China in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies, and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process are in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may, at its discretion, further restrict access to foreign

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currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we will not be able to pay dividends in foreign currencies to our shareholders.

PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity, and our ability to fund and expand our business.

As advised by our PRC Legal Advisor, any funds we transfer to our PRC subsidiaries, either as a shareholder loan, or as an increase in registered capital, are subject to approval by, filing with, or registration with, relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to registration with SAMR in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local branches or designated banks, and (ii) each of our PRC subsidiaries may not procure loans, which exceed the difference between its registered capital and its total investment amount or do not meet certain criteria relating to its net asset. Any medium-or long-term loan to be provided by us to our PRC subsidiaries must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches or designated banks. We may not be able to complete such filing or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such filing or registration, our ability to use the proceeds of this [REDACTED], and to capitalize our PRC operations, may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises, which allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capitals for expenditure beyond their business scope, investment in securities or investments other than banks’ principal-secured products, providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use, except for real estate enterprises. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to, and use in, China the net proceeds from this [REDACTED], which may adversely affect our business, financial condition and results of operations.

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There is uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our Shareholders or our non-PRC holding companies.

On February 3, 2015, the SAT promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”), which provides comprehensive guidelines relating to, and has also heightened the Chinese tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a Chinese resident enterprise (the “**Chinese Taxable Assets**”). For example, Circular 7 states that where a non-resident enterprise transfers Chinese Taxable Assets indirectly, by disposing of equity interests in an overseas holding company directly or indirectly holding such Chinese Taxable Assets, and such transfer is deemed to be, for the purpose of avoiding EIT payment obligations, and without any other bona fide commercial purpose, the transfer may be reclassified by the Chinese tax authorities as a direct transfer of Chinese Taxable Assets. Circular 7 also introduced safe harbors for internal group restructurings and the purchase and sale of equity interests through a public securities market. On October 17, 2017, the SAT promulgated the Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告) (“**SAT Circular 37**”), which came into force on December 1, 2017. SAT Circular 37, among other things, simplifies the procedures of withholding and payment of income tax levied on non-resident enterprises.

Although Circular 7 contains certain exemptions, it is unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares, such as purchasing our Shares in the open market, and selling them in a private transaction, or vice versa, or to any future acquisition by us outside of China involving Chinese Taxable Assets, or whether the Chinese tax authorities classify such transactions by applying Circular 7. Therefore, the Chinese tax authorities may deem any transfer of our Shares by those of our Shareholders that are non-resident enterprises, or any future acquisitions by us outside of China involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional Chinese tax reporting obligations or tax liabilities. In addition, if we fail to comply with Circular 7 and SAT Circular 37, the Chinese tax authorities may take action, including requesting us to provide assistance in their investigation, or may impose a penalty on us, which could have a negative impact on our business operations.

We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries, and on our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with, and obtain approval from, local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment

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through Special Purpose Vehicles, or SAFE Circular 37, was promulgated by the SAFE in July 2014, requiring PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our shareholders who are PRC residents, and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies, are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as a change of PRC shareholders, the name of a company, terms of operation, an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or to update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits, and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal, and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We are committed to complying with, and to ensuring that our Shareholders who are subject to the regulations will comply with, the relevant SAFE rules and regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that the SAFE or its local branches will release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas, or our cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or make other payments to us, or affect our ownership structure, which could adversely affect our business and prospects. As of the Latest Practicable Date, all of our ultimately beneficial owners who are PRC citizens, have completed their registration under the SAFE Circular 37. However, we may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC residents,

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and we cannot assure you that all of our shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update, any applicable registrations, or comply with other requirements under SAFE Circular 37 or other related rules in a timely manner.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we, or the owners of such company, as the case may be, will be able to obtain the necessary approvals, or complete the necessary filings and registrations, required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy, and could adversely affect our business and prospects.

Any requirement to obtain approval from the MOFCOM or the CSRC could delay the [REDACTED], and any failure to obtain such approval, if required, could materially and adversely affect our business, operating results, and reputation, as well as the trading price of our Shares.

According to the M&A Rules jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC, and the SAFE on August 8, 2006, effective on September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (ii) subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (iii) establishes a foreign-invested enterprise to purchase the assets of a domestic enterprise and operate those assets, or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. Where a domestic company or enterprise, or a domestic natural person, through an offshore entity established or controlled by it or him, acquires a domestic company which is related to or connected with it or him, approval from MOFCOM is required. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, in the event that the shareholders of the special purpose vehicle or the special purpose vehicle itself acquires shares of, or equity in, the PRC companies in exchange for the shares or the additionally issued shares of offshore companies.

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Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》(2008)) promulgated by Foreign Investment Department of the MOFCOM, notwithstanding the fact that (i) the domestic shareholder of the domestic company is connected with the foreign investor or not, (ii) whether the foreign investor is an existing shareholder or a new investor, the M&A Rules shall not apply to the merger and acquisition of equity interests in a foreign-invested enterprise.

Our PRC Legal Advisor is of the opinion that the M&A Rules are not applicable. In view of the fact that LX Technology became a sino-foreign joint venture enterprise before LX HK purchased 100% of its shares in compliance with applicable provisions and regulations, LX Technology is not a domestic company stipulated in Article 11 of the M&A Rules. Therefore, the acquisition is not subject to the approval of the MOFCOM. In addition, since the consideration was fully settled in cash, the acquisition is not subject to the approval of the CSRC. Accordingly, our PRC Legal Advisor is of the opinion that prior MOFCOM and CSRC approval under the M&A Rules for this [REDACTED] is not required. However, we cannot assure you that the relevant PRC government agencies, including the MOFCOM and CSRC, would reach the same conclusion as our PRC Legal Advisor. If the MOFCOM, the CSRC or other PRC regulatory agencies subsequently determine that we need to obtain necessary approval for this [REDACTED], or if MOFCOM, CSRC or any other PRC government authorities promulgates interpretation or implementing rules before our [REDACTED] that would require any necessary governmental approvals for this [REDACTED], we may face sanctions by the MOFCOM, the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of proceeds from this [REDACTED] into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, and prospects, as well as the trading price of our Shares. The MOFCOM, the CSRC or other PRC regulatory agencies may also take actions requiring us to halt this [REDACTED] before settlement and delivery of the Shares [REDACTED] by this document.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

The SAT has issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay, or we fail to withhold, their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

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Certain judgment obtained against us by our shareholders may not be enforceable.

We are an exempted company incorporated in the Cayman Islands, and substantially all of our current operations are conducted in China. In addition, a majority of our current Directors and officers are nationals and residents of China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, as there are no clear statutory and judicial interpretations or guidance on a PRC court’s jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and Directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

RISKS RELATING TO THE [REDACTED]

An active trading market in our Shares may not develop, which could have a material adverse effect on the Share price and your ability to sell your Shares.

Prior to completion of the [REDACTED], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [REDACTED]. The [REDACTED] is the result of negotiations among our Company and the [REDACTED] (for itself and on behalf of the [REDACTED]), which may not be indicative of the price at which our Shares will be traded following completion of the [REDACTED]. The market price of our Shares may drop below the [REDACTED] at any time after completion of the [REDACTED]. Moreover, each of our Controlling Shareholders and certain other existing Shareholders is expected to enter into to a six-month lock-up agreement, which will restrict these Shareholders from selling their Shares and therefore, reduce the available public float for our Shares during the lock-up period, subject to customary exceptions. As a result, the absence of any sale of Shares by such persons during the lock-up period may cause, or at least contribute to, limited liquidity in the market for our Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares.

The trading price of the Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility of the price of, and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant

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price declines after their offerings. The trading performances of the securities of these companies at the time of, or after, their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong, and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

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

As the [REDACTED] of our Shares is higher than the consolidated tangible assets less liabilities of the Group attributable to owners of the Company per Share immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution in pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company. Our existing Shareholders will receive an increase in the value of pro forma adjusted consolidated tangible asset less liabilities of the Group attributable to owners of the Company per Share of their shares. In addition, holders of our Shares may experience further dilution of their interest if we issue additional shares in the future to raise additional capital.

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

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

The Shares held by our Controlling Shareholders and certain Shares held by the Pre-[REDACTED] Investors are subject to certain lock-up periods. For further details, see “History, Reorganization and Corporate Structure – Pre-[REDACTED] Investments.” While we are currently not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

We cannot assure you that we will declare and distribute any amount of dividends in the future.

A decision to declare or pay dividends and the amount of such dividends will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and other conditions and factors that our Directors deem relevant and will be subject to approval of our Shareholders. See “Financial Information – Dividends” for details.

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Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. Our future payments of dividends will be at the absolute discretion of our Board and subject to Shareholders’ approval. As a result, there can be no assurances whether, when and in what manner we will pay dividends in the future.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong.

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. Our corporate affairs are governed by the Articles of Association, the Companies Act and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong. This means that the remedies available to our minority Shareholders may be different from those available under the laws of Hong Kong or other jurisdictions. Minority Shareholders may have more difficulty in exercising their rights in the face of actions taken by the management of our Company, Directors or majority Shareholders than they would as shareholders of a Hong Kong company or company incorporated in other jurisdictions. A summary of the constitution of our Company and the Cayman Islands Company Law is set out in Appendix III to this document.

We cannot assure you of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various official government sources contained in this document.

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics derived from official government sources relating to the DLM and targeted markets. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information from official government sources has not been independently verified by us, the [REDACTED], the [REDACTED], the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any other party (other than CIC) involved in the [REDACTED], and no representation is given as to its accuracy. You should consider carefully the importance placed on such information or statistics.

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

There may be, subsequent to the date of this document but prior to the completion of the [REDACTED], press and media coverage regarding us and the [REDACTED], which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for

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the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our [REDACTED]. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].

Since there may be a gap of several Business Days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the [REDACTED]. As a result, investors cannot sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the trading price of our Shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the [REDACTED] and the time trading begins.

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In preparation for the [REDACTED], our Group has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. We have applied for a waiver from strict compliance with Rule 8.12 of the Listing Rules primarily on the basis that, as our headquarters and principal business operations are located in the PRC, our management is best able to attend to its function by being based in the PRC. We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to, among others, the following conditions:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorized representatives, Mr. Hu and Mr. Liu Yan (劉炎) (“**Mr. Liu**”), one of our joint company secretaries, who will act as our Company’s principal channel of communication with the Stock Exchange. Although Mr. Hu and Mr. Liu reside in the PRC, they possess valid travel documents and are able to renew such travel documents when they expire to travel to Hong Kong. In addition, Ms. Cheung Ka Lun Karen (張嘉倫) (“**Ms. Cheung**”), one of our joint company secretaries who is ordinarily resident in Hong Kong, has been appointed as the alternate to the two authorized representatives. Each of our authorized representatives and the alternate authorized representative will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and/or email. Each of our authorized representatives and the alternate authorized representative is authorized to communicate on our behalf with the Stock Exchange. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance and Ms. Cheung has also been authorized to accept service of legal process and notices in Hong Kong on behalf of our Company;
- (b) both our authorized representatives and the alternate authorized representative have means to contact our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required. Each of our Directors has provided his/her mobile phone number, residential phone number, fax number and/or email address to our authorized representatives and the alternate authorized representative. In the event that a

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Director expects to travel, he/she will endeavor to provide the phone number of the place of his/her accommodation to our authorized representatives and the alternate authorized representative or maintain an open line of communication via his/her mobile phone. Each of our Directors, the authorized representatives and the alternate authorized representative has also provided his/her mobile number, office phone number, fax number and/or email address (if applicable) to the Stock Exchange;

- (c) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Haitong International Capital Limited as our compliance advisor, which shall have access at all times to our authorized representatives, alternate authorized representative, Directors, senior management and other officers of our Company, and will act as an additional channel of communication between the Stock Exchange and us; and
- (d) meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives, alternate authorized representative or the compliance advisor, or directly with our Directors within a reasonable time frame. Our Company will promptly inform the Stock Exchange of any changes of our authorized representatives, the alternate authorized representative and/or the compliance advisor.

JOINT COMPANY SECRETARIES

According to Rules 3.28 and 8.17 of the Listing Rules and the Stock Exchange’s guidance letter HKEX-GL 108-20 issued by the Stock Exchange, the secretary of an issuer must be a person who has the requisite knowledge and experience to discharge the functions of the company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong) or a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong); or (ii) an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. According to the Guidance Letter HKEx-GL108-20, the waiver under Rule 3.28 of the Listing Rules will be granted for a fixed period of time, but in any case, will not exceed three years from the [REDACTED] (the “Waiver Period”) and on the conditions that (i) the company secretary in question must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by the Company.

We have appointed Mr. Liu and Ms. Cheung as our joint company secretaries. Mr. Liu is our general manager of the funding center. He is primarily responsible for and overseeing corporate financing and company secretarial matters of the Group. Mr. Liu has over seven years of corporate financing experience and served in various companies in the PRC before joining our Group. Our Directors are of the view that, having regard to the facts that Mr. Liu

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obtained the certificate of Secretary of the Board (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in April 2021 and joined our Group in August 2018, he has thorough understanding of the business and operation of our Group. Moreover, he has been participating in capital market-related matters and representing our Group in discussions and negotiations in corporate financing and company secretarial matters, and thus he is considered as a suitable person to act as a company secretary of the Company. In addition, as our headquarters and principal business operations are located in Shenzhen in the PRC, our Directors believe that it is necessary to appoint Mr. Liu as a company secretary whose presence enables him to attend to the day-to-day company secretarial matters concerning our Group. However, as Mr. Liu does not possess a qualification as stipulated in Rule 3.28 of the Listing Rules, he is not able to solely fulfill the requirements as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 of the Listing Rules. Therefore, our Company has appointed Ms. Cheung, a Chartered Secretary, a Chartered Governance Professional and an associate member of both The Hong Kong Chartered Governance Institute (HKCGI) and The Chartered Governance Institute in the United Kingdom, who is qualified under Rule 3.28 of the Listing Rules to act as the other joint company secretary to provide support to Mr. Liu on an ongoing basis.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules on the condition that Mr. Liu will be assisted by Ms. Cheung as our joint company secretary throughout the Waiver Period. Having over seven years of experience in the corporate secretarial field and having been providing professional corporate and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies, Ms. Cheung is, in our Company’s opinion, a person who is qualified and suitable to provide assistance to Mr. Liu, for the Waiver Period so as to enable him to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to duly discharge his duties. In addition, Mr. Liu will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the [REDACTED]. Our Company will further ensure that Mr. Liu has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange.

Such waiver will be revoked immediately if and when Ms. Cheung ceases to provide such assistance or if our Company commits any material breaches of the Listing Rules during the Waiver Period. We will liaise with the Stock Exchange before the end of the Waiver Period to enable it to assess whether Mr. Liu, having had the benefit of Ms. Cheung’s assistance for three years, will have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

The biographical information of Mr. Liu and Ms. Cheung is set out in “Directors and Senior Management” in this document.

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LX BROTHERS EMPLOYEE INCENTIVE PLAN

The Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance prescribes certain disclosure requirements in relation to the share options granted by our Company:

- (a) Rule 17.02(1)(b) of the Listing Rules requires our Company to disclose in this document full details of all outstanding options and their potential dilution effect on the shareholdings upon Listing as well as the impact on the earnings per share arising from the exercise of such outstanding options;
- (b) paragraph 27 of Appendix 1A to the Listing Rules requires our Company to set out in this document particulars of any capital of any member of our Group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee; and
- (c) section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all prospectuses to be issued, circulated or distributed in Hong Kong to include, among other information, the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires our Company to set out in this document, among other things, details of the number, description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely (a) the period during which it is exercisable, (b) the price to be paid for shares and debentures subscribed for under it, (c) the consideration (if any) given or to be given for it or for the right to it, and (d) the names and addresses of the persons to whom it was given.

Guidance Letter HKEX-GL11-09 issued by the Stock Exchange provides that the Stock Exchange would normally grant waivers from disclosing the names and addresses of certain grantees if the issuer could demonstrate that such disclosures would be irrelevant and unduly burdensome, subject to certain conditions specified therein.

Pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interest of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

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As of the Latest Practicable Date, our Company had granted options under the LX Brothers Employee Incentive Plan to a total of 102 eligible grantees, comprising two Directors, two senior management and one connected person of our Company and 97 employees of our Group, to subscribe for an aggregate of 6,622,445 Shares (as adjusted to [REDACTED] Shares after the Capitalization Issue) under the LX Brothers Employee Incentive Plan, representing [REDACTED]% of the total number of Shares in issue immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised) on the terms set out in “Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan” in Appendix IV.

We have applied to the Stock Exchange and SFC, respectively for, for (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules; and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, on the ground that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) given that 102 grantees are involved, strict compliance with such disclosure requirements in setting out full details of all the grantees under the LX Brothers Employee Incentive Plan in this document will require an additional number of pages of disclosure that does not provide any material or meaningful information to the investing public;
- (b) the grant and exercise in full of the options under the LX Brothers Employee Incentive Plan will not cause any material adverse impact to the financial position of our Company;
- (c) non-compliance with the above disclosure requirements would not prevent our Company from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Company; and
- (d) material information relating to the options under the LX Brothers Employee Incentive Plan will be disclosed in this document, including the total number of Shares subject to the LX Brothers Employee Incentive Plan, the exercise price per Share, the potential dilution effect on the shareholding and impact on earnings per Share upon full exercise of the options granted under the LX Brothers Employee Incentive Plan. The Directors consider that the information that is reasonably necessary for potential investors to make an informed assessment in their investment decision making process has been included in this document.

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In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application will not prejudice the interest of the investing public.

The Stock Exchange [has agreed] to grant to our Company a waiver under the Listing Rules on condition that:

- (a) on an individual basis, full details of the options granted under the LX Brothers Employee Incentive Plan to each of the Directors, the senior management, the connected person of the Company and Key Employees (as defined below) who are not Directors or the senior management of our Company will be disclosed in "Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan" in Appendix IV as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted under the LX Brothers Employee Incentive Plan to remaining grantees (other than set out in (a) above), disclosure will be made, on an aggregate basis, of (1) the aggregate number of grantees and number of Shares underlying the options under the LX Brothers Employee Incentive Plan, (2) the consideration paid (if any) for the grant of the options under the LX Brothers Employee Incentive Plan and (3) the exercise period and the exercise price of the options granted under the LX Brothers Employee Incentive Plan, in "Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan" in Appendix IV;
- (c) aggregate number of Shares underlying the options granted under the LX Brothers Employee Incentive Plan and the percentage to the Company's total issued share capital represented by such number of Shares as of the Latest Practicable Date will be disclosed in "Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan" in Appendix IV;
- (d) the potential dilution effect and impact on earnings per Share upon the full exercise of the options under the LX Brothers Employee Incentive Plan will be disclosed in "Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan" in Appendix IV;
- (e) a summary of the major terms of the LX Brothers Employee Incentive Plan will be disclosed in "Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan" in Appendix IV;
- (f) the particulars of the waiver and the exemption will be disclosed in this document;

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- (g) a list of all the grantees (including those persons whose details have already been disclosed) containing all the particulars as required under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance will be made available for public inspection as described in "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix V; and
- (h) the grant of certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting the Company from the disclosure requirements provided in paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

The SFC [has agreed] to grant to our Company the certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on condition that:

- (a) on an individual basis, full details of the options granted under the LX Brothers Employee Incentive Plan to each of the Directors, the senior management, the connected person of the Company and other grantees who have been granted options representing 270,000 Shares or above (the "**Key Employees**") will be disclosed in "Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan" in Appendix IV as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted under the LX Brothers Employee Incentive Plan to remaining grantees (other than set out in (a) above), disclosure will be made, on an aggregate basis, of (1) the aggregate number of grantees and number of Shares underlying the options under the LX Brothers Employee Incentive Plan, (2) the consideration paid (if any) for the grant of the options under the LX Brothers Employee Incentive Plan and (3) the exercise period and the exercise price of the options granted under the LX Brothers Employee Incentive Plan, in "Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan" in Appendix IV;
- (c) a list of all the grantees (including those persons whose details have already been disclosed in this document) who have been granted the options under the LX Brothers Employee Incentive Plan, containing all the particulars as required in paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, will be made available for public inspection as described in "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix V;

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- (d) the particulars of the exemption will be disclosed in this document; and
- (e) this document will be issued on or before October 31, 2022.

Further details of the LX Brothers Employee Incentive Plan are set out in the section headed “Appendix IV – Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan.”

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which will constitute continuing connected transactions for our Company under the Listing Rules after [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, waivers from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transactions as disclosed in “Connected Transactions – Continuing Connected Transactions subject to the reporting, annual review and announcement requirements but exempt from the circular and the independent Shareholders’ approval requirements”. See “Connected Transactions” in this document for details.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. Hu Zuoxiong (胡祚雄)	Flat 16E1, Building C3 Qiao Xiang Road 2023 Futian District Shenzhen Guangdong China	Chinese
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Mr. Chen Xiuwei (陳修偉)	Flat 6C, Hong Yi Building Tianyuelongting Xin'an Road, Baoan District Shenzhen Guangdong China	Chinese
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Mr. Cao Weijun (曹維軍)	16-6-402, 2/F Harmonious Garden Huilongguan Changping District Beijing China	Chinese
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Non-executive Director

Mr. Li Jing (李靖)	Flat 605, Block 6 Balizhuang East Lane Chaoyang District Beijing China	Chinese
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**Independent non-executive
Directors**

Mr. Kam Chi Sing (甘志成)	Flat D, 20/F 9 College Road, Kowloon Hong Kong	Chinese
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Ms. Xu Nailing (徐乃玲)	Flat 27D, Block 12 Jindi Tennis Garden Futian District Shenzhen Guangdong China	Chinese
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Ms. Zhao Jinlin (趙晉琳)	Flat 2B, Building 2 Bohaimingyuan No.8 Gaoxingnan Loop Nanshan District Shenzhen Guangdong China	Chinese
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For further information about our Directors and members of our senior management, please refer to “Directors and Senior Management” of this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor

Haitong International Capital Limited
Suites 3001-3006 & 3015-3016
One International Finance Centre
No. 1 Harbour View Street
Central
Hong Kong

[REDACTED]

Legal advisors to our Company

As to Hong Kong and U.S. law:

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC law:

Jingtian & Gongcheng
34th Floor, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing
China

As to Cayman Islands law:

Maples and Calder (Hong Kong) LLP
26th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal advisors to the Sole Sponsor and the [REDACTED]

As to Hong Kong and U.S. law:

Paul Hastings

22/F, Bank of China Tower

1 Garden Road

Central

Hong Kong

As to PRC law:

King & Wood Mallesons

25/F, Guangzhou CTF Finance Centre

No. 6 Zhujiang East Road

Zhujiang New Town

Tianhe District

Guangzhou

Guangdong 510623

China

Auditor and Reporting Accountants

Deloitte Touche Tohmatsu

Certified Public Accountants

Registered Public Interest Entity Auditor

35/F, One Pacific Place

88 Queensway

Hong Kong

Industry consultant

China Insights Industry Consultancy Limited

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*(the information contained on this website
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INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this document are derived from various official government and other publicly available sources, and from the market research report prepared by CIC, an independent industry consultant which was commissioned by us (the “CIC Report”). No independent verification has been carried out on the information from official government sources by us, the Sole Sponsor, [REDACTED] or any other parties (other than CIC) involved in the [REDACTED] or their respective directors, officers, employees, advisers, or agents, and no representation is given as to the accuracy. Unless and except for otherwise specified, the market and industry information and data presented in this “Industry Overview” section is derived from the CIC Report.

SOURCES OF INFORMATION

We have engaged CIC, an independent market research consulting firm, to conduct a detailed analysis and prepare an industry report on China’s DLM industry. CIC, founded in Hong Kong, provides professional services including, among others, industry consulting, commercial due diligence and strategic consulting. We have agreed to pay a fee of RMB600,000 to CIC in connection with the preparation of the CIC Report. We are of the view that the payment of such amount does not impact the fairness of the conclusions drawn in the CIC Report. We have extracted certain information from the CIC Report in this section, as well as in the sections headed “Summary,” “Risk Factors,” “Business,” “Financial Information” and elsewhere in this document to provide our potential investors with a more comprehensive presentation of the industry in which we operate.

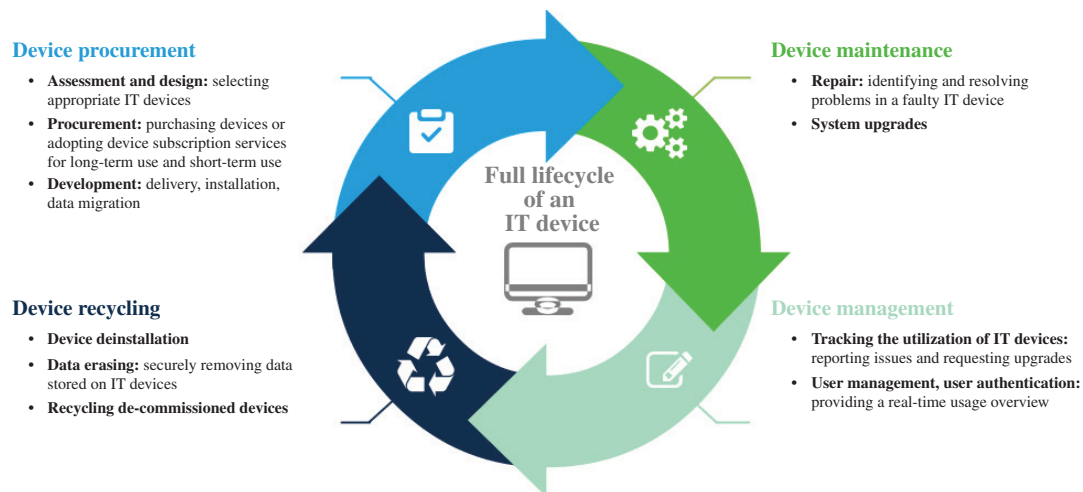
During the preparation of the CIC Report, CIC performed both primary and secondary research, and obtained knowledge, statistics, information on and industry insights into China’s DLM industry. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources. The CIC Report was compiled based on the following assumptions: (i) the overall social, economic and political environment in China is expected to remain stable during the forecast period; (ii) relevant key drivers are likely to drive the continued growth of China’s DLM industry throughout the forecast period; and (iii) there is no extreme force majeure or unforeseen industry regulations in which the industry may be affected in either a dramatic or fundamental way. All forecasts in relation to market size are based on the general economic conditions as of the Latest Practicable Date, which would be adjusted if the COVID-19 outbreak persisted or escalated and had an unpredicted negative impact on the general economy.

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THE DLM MARKET IN CHINA

Overview

In recent years, the implementation of mass entrepreneurship and favorable policies by the Chinese government have increased the number of enterprises, especially SMEs, in China. The growing IT spending and increased digitalization needs of these SMEs and enterprises have led to the fast growth of services market of IT devices in China. Hence, the full lifecycle of an IT device, which comprises its procurement, maintenance, management and disposal, has become the key of running an efficient and effective asset-light office. DLM aims at improving enterprises’ return on investment in devices and ensuring devices function at their expected quality and efficiency. DLM serves as a model for the management of IT devices which comprises a broad portfolio of solutions covering major stages of the full lifecycle of an IT device to solve pain points faced by enterprise when managing IT devices. The figure below illustrates the major activities included in the full lifecycle of an IT device:



Source: independent research conducted by CIC based on interviews with industry players

DLM enables better control over the functionality and efficacy of IT devices, and simpler IT device troubleshooting, which in turn may enhance company’s productivity. According to CIC, China’s DLM market is still in early-stage development. A majority of enterprises purchase IT devices directly and rely on their in-house IT technical team or local small-scale service providers for the management of IT devices. However, efficient DLM solutions are able to extensively solve the pain points faced by enterprises when dealing with office IT devices management and cuts the operating costs of IT devices on average compared with the traditional practices. Those pain points faced by enterprises primarily include the following:

- (i) purchasing IT devices directly which creates substantial financial pressure due to the large one-time costs;

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- (ii) inefficient IT staffing for device maintenance due to the continuing increase in the average salary of IT personnel in China;
- (iii) lack of effective device allocation to employees and lack of management and monitoring of the operating status of each IT device, which leads to inefficient equipment management and ineffective equipment utilization; and
- (iv) insufficient device disposal sources and lack understanding of the timing and price for disposing of a device, potentially leading to a financial loss.

Being able to deal with the abovementioned pain points with the advantages shown in the figure, DLM solutions have now become a recent trend for device management. The emergence of DLM solutions, including device subscription services, IT technical subscription services, device management SaaS and device recycling business, has improved devices’ utilization rate as well as enterprises’ operating efficiency. These solutions address enterprises’ needs for IT devices in multiple scenarios, including long-term subscriptions, short-term or one-time business activities, disposal and residual value treatment. Full-stack DLM solution providers are able to address the diverse needs of enterprises, achieve synergetic development of services, broaden customer base and expand cross-selling opportunities.

Development Path for the DLM Market in China

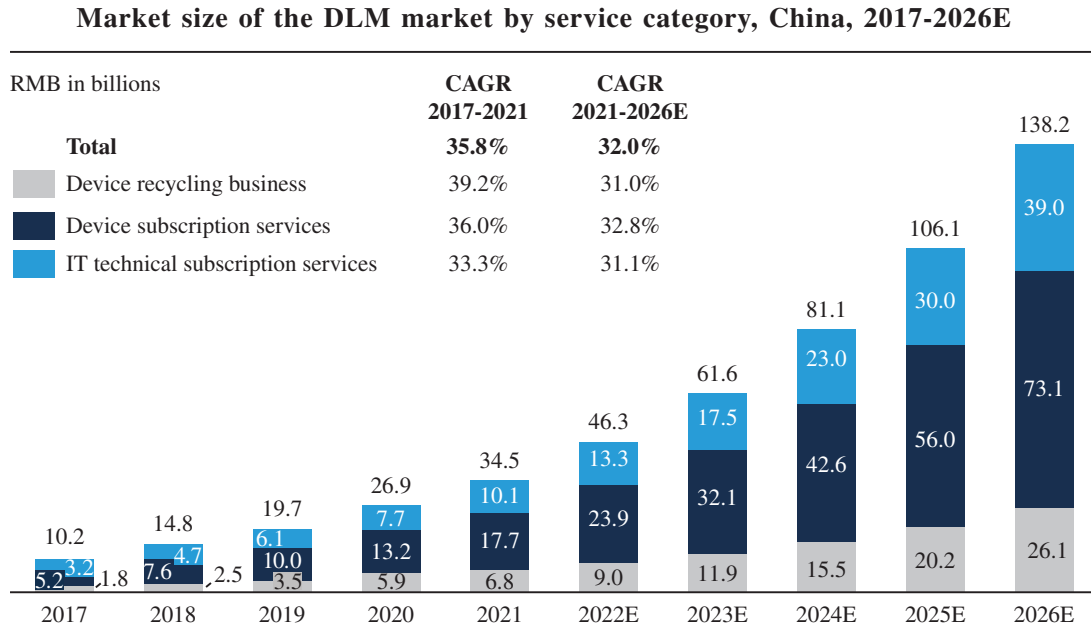
Around 2005, short-term rentals of printers and photocopiers for offline exhibitions appeared, which was the elementary stage of DLM. In the past five years, the number of SMEs in China experienced an increase due to the Chinese government’s support and encouragement of entrepreneurship and the implementation of favorable policies. Demands for office IT devices in all kinds of business segments and scenarios have become constant and robust, bringing new opportunities in the offering of long-term device subscription services. After nearly a decade, demands for replacing obsolete or de-commissioned devices gave birth to device recycling business. With the acceleration of digital transformation since 2018, device management SaaS has gained its popularity. Since 2020, the occurrence of COVID-19 has encouraged a broad shift to working remotely, resulting in enterprises’ increased investments in IT devices and further development of DLM market in China.

Market Size of the DLM Market in China

The DLM market in China has experienced impressive growth over the past five years. The overall market size has increased from RMB10.2 billion in 2017 to RMB34.5 billion in 2021 in terms of revenue. With the continuous investments in IT equipment by enterprises and the deepening of flexibility in office, the DLM market in China is expected to experience growth at a faster rate in the years ahead, increasing to RMB138.2 billion in 2026 at a CAGR of 32.0% during the forecast period from 2021 to 2026.

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The following chart illustrates the DLM market size in China in terms of revenue by service category:



Source: (1) CIC Report, (2) Third party institutes such as the Internet Data Corporation, Tencent CDC and the Chinese Academy of Social Sciences (中國社會科學院), (3) Interviews with industry players by CIC, (4) Website of PRC major DLM solution providers, and (5) Internet Data Corporation.

Note:

- (1) The DLM market size in China does not reflect the revenue generated from device management SaaS through SaaS platforms, which are primarily provided for free.

Device Recycling Business Market

A large number of waste IT devices are not effectively recycled or disposed of in China. Currently, most of the recycling services are completed offline by small and local service providers who have limited knowledge or systematic service logistics. In recent years, service providers have commenced device recycling and disposal services to meet the needs of enterprise for handling de-commissioned equipment. Given the emergence of DLM solution providers as well as a growing environmental awareness among enterprises, the recycling market in China is anticipated to experience an expansion in the years ahead and continue expanding at a faster pace. The market size of device recycling business in China has grown from RMB1.8 billion in 2017 to RMB6.8 billion in 2021 in terms of revenue at a CAGR of 39.2%, and is expected to reach approximately RMB26.1 billion in 2026 in terms of revenue at a CAGR of 31.0% from 2021 to 2026.

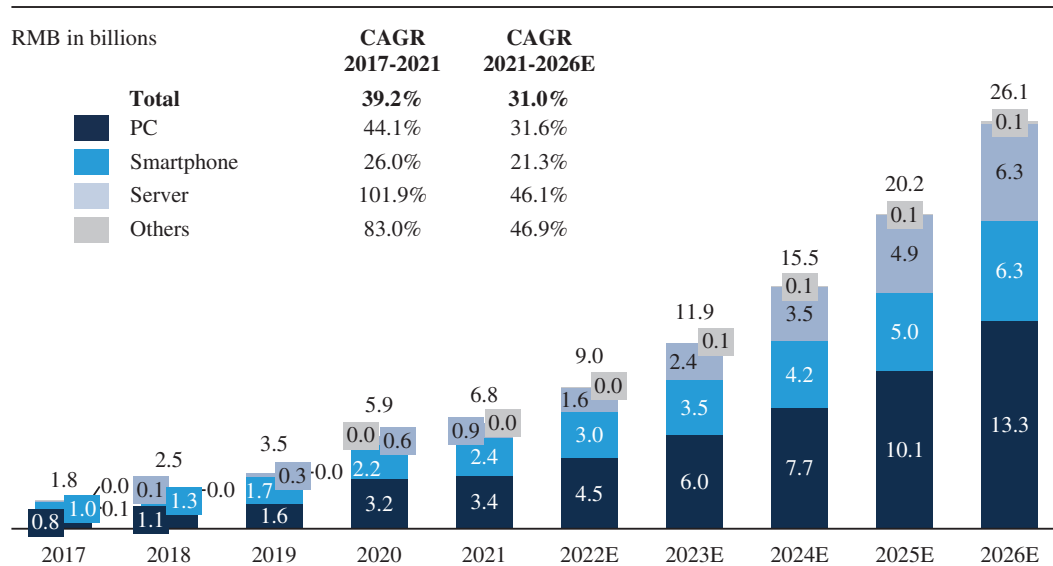
The cloud service market in China has been booming in recent years. Many cloud service vendors have continuously increased their investment in the construction of data centers. Servers, which have grown tremendously in demand in the past decades with the development

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of internet companies and the transformation from offline to online business models, are expected to become one of the leading device categories driving growth in the overall recycling market. The recycling market for servers will reach approximately RMB6.3 billion in 2026 in terms of revenue at a CAGR of 46.1% from 2021 to 2026.

The following chart demonstrates the market size of device recycling business in China in terms of revenue by device category:

Market size⁽¹⁾ of device recycling business in the DLM market, by device category, China, 2017-2026E



Source: (1) CIC Report, (2) Internet Data Corporation, and (3) Interviews with industry players by CIC.

Note:

(1) For the market size, only device recycling business provided by DLM solution providers are considered.

Device Subscription Services Market

The market size of device subscription services in China has undergone fast growth over the past five years, growing from RMB5.2 billion in 2017 to RMB17.7 billion in 2021 in terms of revenue, representing a CAGR of 36.0%. It is expected to reach approximately RMB73.1 billion in 2026 in terms of revenue at a CAGR of 32.8% from 2021 to 2026.

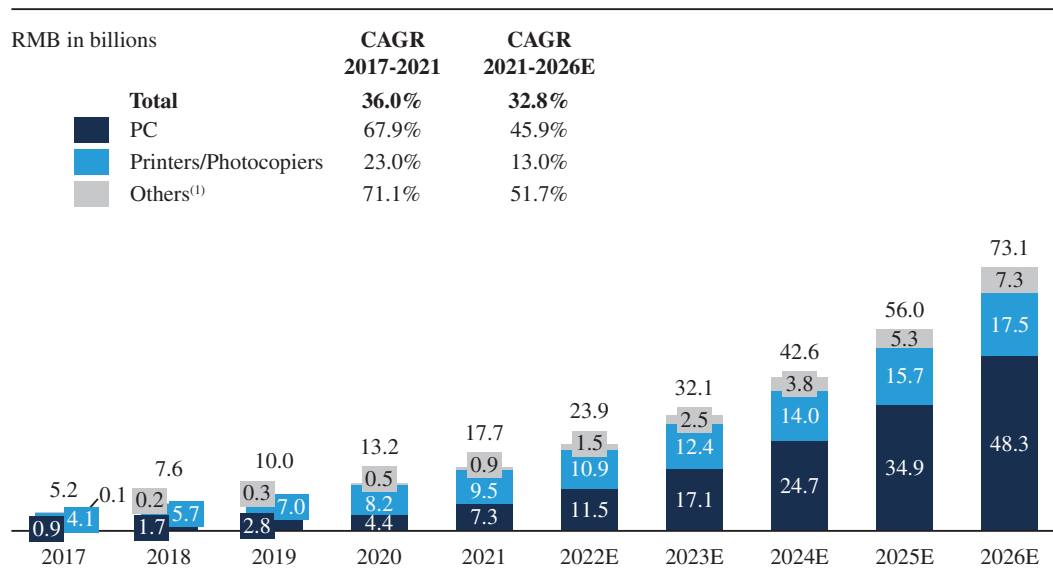
The major IT devices for subscription in multiple business scenarios consist of computers, printers and photocopiers, conference devices and servers, among which subscriptions of photocopiers or printers are relatively more mature than the other devices, accounting for 53.6% of the overall device subscription services market in 2021. Currently, the device subscription services market of computers is still in the early stage of development and has a low penetration rate. As computers are the most often-used devices by white-collar workers,

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they are projected to surpass photocopiers and printers to become the IT device with the largest market share during the next five years at a CAGR of 45.9%. Due to the complicated maintenance and higher subscription prices, the device subscription services market of photocopiers and printers is expected to maintain a steady growth at a CAGR of 13.0% during the next five years. In the future, it is expected that DLM solution providers will broaden the device categories and business scenarios.

The following chart demonstrates the market size of device subscription services in China in terms of revenue by device category:

**Market size of device subscription services in the DLM market,
by IT device category, China, 2017-2026E**



Source: (1) CIC Report, (2) Third party institutes such as the Internet Data Corporation, Tencent CDC and the Chinese Academy of Social Sciences (中國社會科學院), (3) Interviews with industry players by CIC, and (4) Website of PRC major DLM solution providers.

Note:

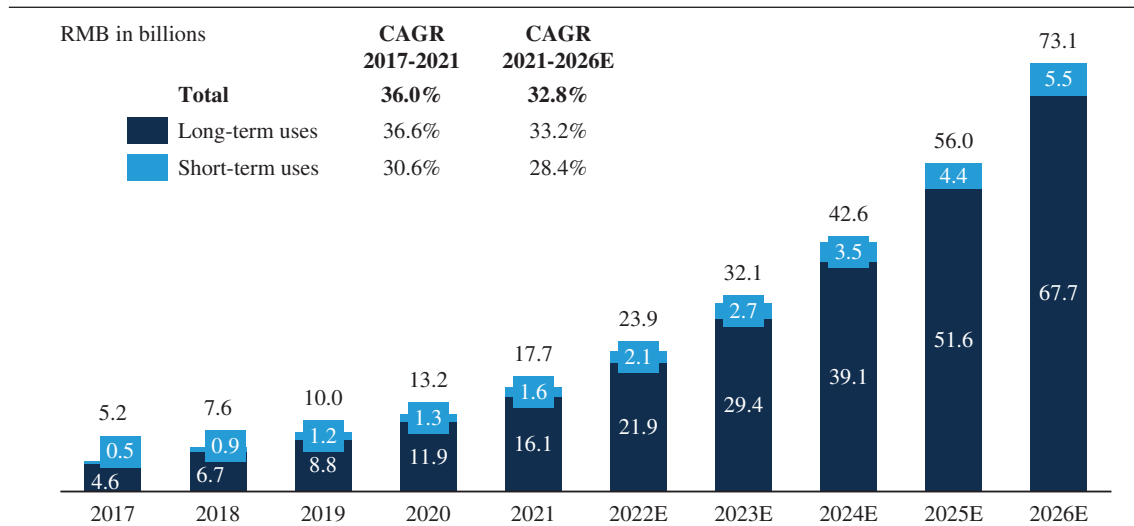
(1) Others primarily include projectors, interactive conference boards and servers.

Device subscription services include long-term and short-term subscriptions. A diverse range of business functions at enterprises are in need of long-term device subscription services. The long-term subscription market in China accounts for a majority market share of the overall DLM market, and is forecasted to maintain a fast growth trend over the next five years at a CAGR of 33.2% alongside the continued growth in the number of SMEs and improvements in the level of acceptance for IT device subscriptions. In the meantime, with the fast development of the MICE (Meetings, Incentives, Conferencing and Exhibitions) industry, demands for short-term subscription services have continuously increased. The short-term subscription market is expected to maintain a promising growth trend during the next five years at a CAGR of 28.4%.

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The following chart demonstrates the market size of device subscription services in China in terms of revenue by business scenarios:

Market size of the device subscription services in the DLM market, by business scenarios, China, 2017-2026E



Source: (1) CIC Report, (2) Third party institutes such as the Internet Data Corporation, Tencent CDC and the Chinese Academy of Social Sciences (中國社會科學院), (3) Interviews with industry players by CIC, and (4) Website of PRC major DLM solution providers.

IT Technical Subscription Services Market

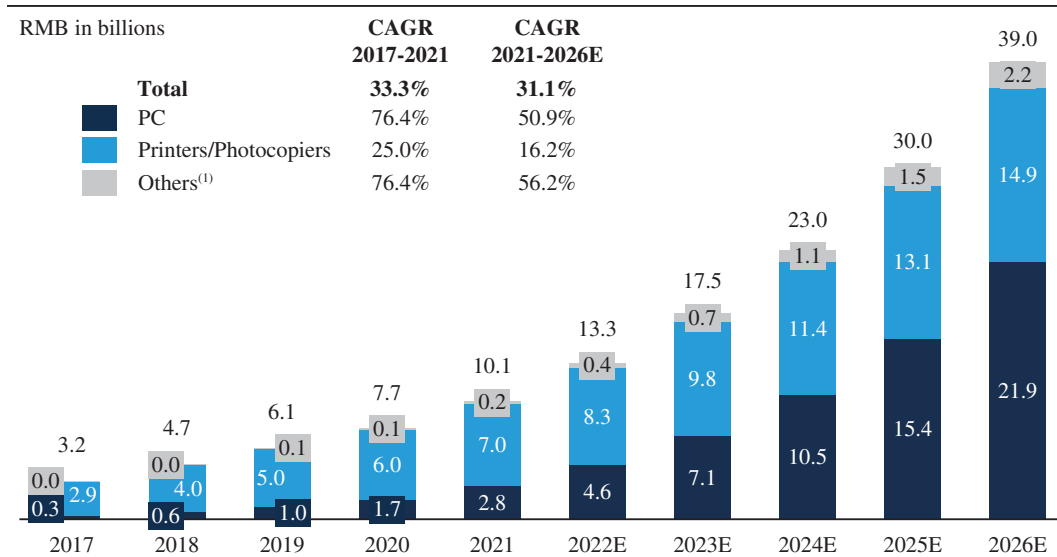
The market size of IT technical subscription services in China has been expanding over the past five years, growing from RMB3.2 billion in 2017 to RMB10.1 billion in 2021 in terms of revenue, representing a CAGR of 33.3%. As more and more enterprises tend to focus on their core businesses and operation by outsourcing the complicated and cumbersome IT technical matters to professional IT teams, their demands for IT technical subscription services are increasing. The market size of IT technical subscription services in China is expected to reach approximately RMB39.0 billion in 2026 in terms of revenue at a CAGR of 31.1% from 2021 to 2026.

It is common to encounter technical issues such as device connectivity issues and equipment failure during the daily use of printers due to its complex mechanical structure, as well as requirements to regularly replace consumables such as toner cartridges, which results in a relatively stronger demand for printer-related IT technical subscription services of enterprises. With increasing popularity for computer subscriptions, demands for computer-related IT technical subscription services will increase concurrently, expecting to achieve a CAGR of 50.9% from 2021 to 2026.

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The following chart demonstrates the market size of IT technical subscription services in China in terms of revenue by device category:

Market size of IT technical subscription services in the DLM market, by device category, China, 2017-2026E



Source: (1) CIC Report, (2) Third party institutes such as the Internet Data Corporation, Tencent CDC and the Chinese Academy of Social Sciences (中國社會科學院), (3) Interviews with industry players by CIC, and (4) Website of PRC major DLM solution providers.

Note:

- (1) Others primarily include projectors, interactive conference boards and servers.

Key Growth Drivers for the DLM Market in China

- *Expansion of digital transformation.* China’s digital transformation strategy and enterprises’ higher expectations on IT equipment performance are expected to promote the DLM market in China. Enterprises’ expenditures on hardware are expected to increase from RMB1.2 trillion in 2021 to RMB2.0 trillion in 2026, and the expansion of digital transformation will help increase enterprises’ continuous expenditures on IT equipment. As an important solution to device management, China’s DLM market will usher in a fast-growing era.
- *Popularity of the DLM business model.* The ever-changing corporate behaviors in a fast growing market have indicated that enterprises now are more willing to pay for the useful and beneficial services in order to raise efficiency and utilize the resources without any unnecessary waste. The flexibility in office IT device procurement and management as well as the tailor-made services catered to the diverse needs of enterprises will lead to a growing popularity of the DLM business model.

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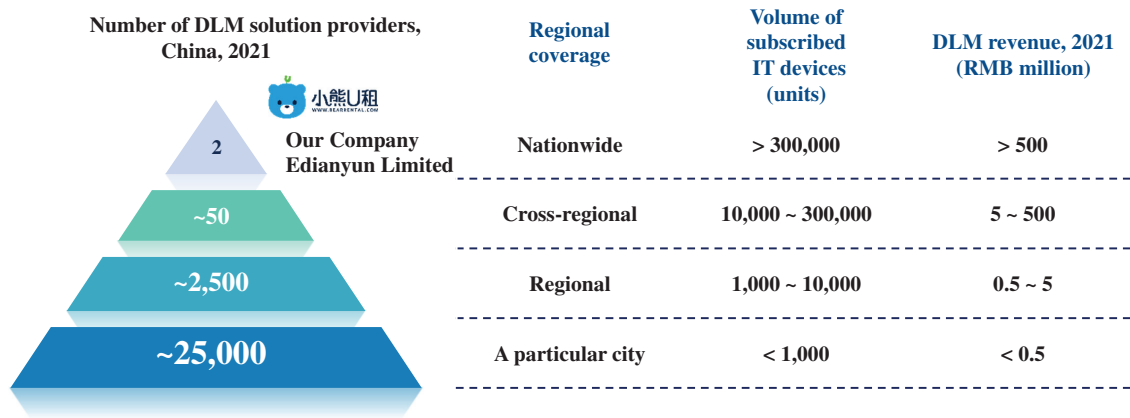
- *Increasing demands for cost reduction and efficiency improvement.* Enterprises are paying more attention to cost reduction and cutting down one-time expenditures, as well as improving operational efficiency and resisting business risks during the course of business development. As DLM effectively helps with cost reduction of IT devices and efficiency improvement in IT equipment management, it has been widely accepted by enterprises.
- *Diversified office scenarios.* The outbreak of COVID-19 has facilitated the popularity of telecommunicating in China, which stimulated enterprises’ demands for new IT devices, especially flexible and portable mobile devices and cloud-based video conference devices, which will further drive the fast expansion of China’s DLM market.
- *Rising environmental awareness.* The Chinese government has introduced policies and incentives to promote the environmental protection in enterprises in recent years. In particular, there are action plans, guiding opinions and notices issued by MIIT, NDRC, MOF, MOFCOM and other governmental authorities promoting the recycle and utilization of waste electrical products and equipment, and supporting enterprises to strengthen the full lifecycle management of devices and facilities. Subsidies have also been provided to enterprises engaged in the processing of scrap electronics products. Enterprises have increased their environmental awareness and pay more attention to the disposal of de-commissioned IT equipment, providing development opportunities to the device recycling business market.

Competitive Landscape for the DLM Market in China

The DLM market in China is highly fragmented, composed of a large number of small-scale regional DLM solution providers with only a few top players whose revenues exceed the RMB500 million threshold. Roughly, China’s DLM solution providers can be divided into four tiers. The fourth-tier companies consist of approximately 25,000 small-scale regional DLM solution providers who only provide services in a particular city with less than 1,000 devices for subscription. The business operations of the fourth level DLM solution providers are usually limited by factors such as financial resources and channels, and it is quite hard for them to expand its business. The third-tier companies consist of regional leading DLM solution providers with more than 1,000 but less than 10,000 devices for subscription. The second-tier companies consist of large-scale cross-regional companies setting footprints in at least three cities with more than 10,000 but less than 300,000 devices for subscription. The first-tier companies with a revenue exceeding RMB500 million and more than 300,000 devices for subscription only include two companies, one of which is us.

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The following diagram illustrates the pyramid-distributed DLM market players in China:



Source: independent research conducted by CIC based on interviews with industry players

In 2021, the top five market players (all of which are independent from device manufacturers) in terms of revenue in the industry accounted for approximately 7.2% of the total market share. In the same year, we generated revenue of RMB1.3 billion from our DLM business (including device recycling business, device subscription services, IT technical subscription services and device management SaaS), accounting for approximately 3.9% of the total market share. In addition, the pay-as-you-go office IT integrated solutions of Ediaryun (similar to our device and IT technical subscription businesses) recorded a revenue of RMB997.9 million in 2021 while our revenue generated from the device and IT technical subscription businesses was RMB406.0 million in the same year. In this regard, Ediaryun ranked the first while we ranked the second in the subscription segment of China’s DLM market in 2021.

The following diagram illustrates the market shares of the top five market players in terms of revenue in 2021:

Competitive analysis of DLM solution providers, China, 2021

Ranking	Company name	Year established	DLM revenue, 2021, RMB in millions	Market share in terms of revenue, 2021	Service type				Device subscription by business scenario	
					Device recycling	Device subscription	IT technical subscription	Device management SaaS	Long-term uses	Short-term uses
1	Our Company	2004	1,330.4	3.9%	√	√	√	√	√	√
2	Ediaryun Limited (易点云有限公司)	2014	1,011.1	2.9%	√	√	√	√	√	None
3	Benlizu (本立租)	2019	100.0	0.3%	√	√	√	None	√	√
4	Aiterent (艾特租)	2017	31.3	0.1%	√	√	√	None	√	√
5	Slease (闪租网)	2016	30.0	0.1%	None	√	√	None	√	√

Source: independent research conducted by CIC which includes interviews with industry players and research on public information available on websites of the companies mentioned above

Notes:

- Ediaryun Limited, an unlisted company, is a leading DLM solution provider headquartered in Beijing which primarily provides DLM related to PCs.

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- (2) Benlizu, an unlisted company, is a leading DLM solution provider headquartered in Guangzhou which primarily provides DLM related to PCs and printers/photocopiers.
- (3) Aiterent, an unlisted company, is a leading DLM solution provider headquartered in Shanghai which primarily provides DLM related to PCs, printers/photocopiers, and servers.
- (4) Slease, an unlisted company, is a leading DLM solution provider headquartered in Shanghai which primarily provides DLM related to PCs and printers/photocopiers.
- (5) Incomes are recognized as commission fees for commission-based platform service providers.
- (6) The rankings do not include sales service providers or commissioned-based platform service providers.

Key Factors for Success of the DLM Market in China

- *Service capabilities.* As a service-focused industry, DLM involves all aspects of solutions and services relating to devices, such as equipment maintenance and operation, system iteration and update, equipment management and residual value processing services apart from device subscription services. Service capabilities such as immediate response to needs, prompt troubleshooting and full-stack service portfolios can improve customer satisfaction and help establish long-term and stable business relationships with customers.
- *Scale effect.* Impacts brought by the scale effect include an increase in the bargaining power with suppliers and a decrease in procurement costs of DLM solution providers. As a result, DLM solution providers are able to provide their services at an advantageous price, which in turn will attract more potential customers. In addition, a nationwide service network enables customers to enjoy timely services, which contributes to customer stickiness and can further enhance the competitiveness of DLM solution providers.
- *Risk management capabilities.* Customers make payment in installments for long-term device subscription services and return the provided devices upon completion of services, which brings risks of bad debts, equipment damage and failure to retrieve the provided equipment to DLM solution providers. A comprehensive risk management system is essential to accurate customer credit risk assessment and formulation of targeted risk protection measures. A sound risk management system will lay a solid foundation for a long-term stable DLM.
- *Channel expansion capabilities and stable supplies.* DLM solution providers need to expand their vertical and horizontal channels, including acquisition of suppliers and customers as well as marketing and promoting capabilities. Strong channel expansion capabilities are crucial to stable services and a healthy business growth. In addition, it's crucial for DLM solution providers to establish and maintain stable collaborative relations with creditors and suppliers with abundant traffic resources to have access to high-quality products, accelerate channel expansions, and guarantee a stable supply. The construction of a stable channel also improves DLM solution providers' ability to timely meet the needs of customers.

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Threats, Challenges and Entry Barriers of the DLM Market in China

Threats and Challenges

The major threats and challenges posed to the DLM market in China include the following aspects:

- (i) The slowdown of China’s economic growth may result in a low recruitment rate, which in turn may reduce enterprises’ demands for DLM, especially in device replacement and recycling;
- (ii) The low penetration rate of DLM market indicates that the DLM solution providers need to input more time to increase the market acceptance of DLM among enterprise customers; and
- (iii) It may be hard for DLM solution providers to acquire sustainable, stable, sufficient and low-cost financing resources.

Entry Barriers

- *Wide upstream supply channels and strong capital resources.* DLM solution providers should be able to build deep collaborative relationships with, and gain strategical support from, upstream supply channels and device manufacturers in order to obtain the stable supply of quality IT devices at favorable costs in the DLM market. Moreover, DLM solution providers require strong capital resources to expand their business corresponding to the market development. As new market participants may not have connection with upstream suppliers and substantial capital strength, they may have difficulties in gaining competitive advantage or enter the industry in the short term.
- *Diversified customer acquisition channels and efficient DLM operation.* DLM solution providers should be able to diversify their customer acquisition channels to gain the competitive advantage. With respect to the DLM operation, building a digital device full lifecycle management platform or device management SaaS platform is crucial for DLM solution providers to monitor the conditions of devices. Furthermore, it requires the construction of nationwide device maintenance and recycling network to realize the high efficiency of device operation.
- *Refurbishment capabilities.* It is crucial for DLM solution providers to possess capabilities of refurbishing and remanufacturing IT devices to extend the lifecycle and improve the efficiency of IT devices. New entrants without such capabilities and techniques may face greater challenges when entering the market.
- *Comprehensive risk control system.* It is important and requires technology skills for new DLM solution providers to establish a comprehensive and effective risk control system to reduce the loss that may be caused by credit risks from enterprise customers.

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Future Trends for the DLM Market in China

- *Asset-light operation.* Facilitated by DLM, running an asset-light office will become more prevalent. As enterprises no longer need to procure fixed IT assets, they will maintain a better cash flow to invest in business development.
- *Diversified device categories.* Corporate needs for multiple IT device categories will continue to expand in the next few years. Computers and printers and photocopiers are projected to account for the largest share of the long-term subscription market, while conference devices meanwhile will maintain the fastest growth as a new entrant to the market.
- *Broadened service portfolio.* As corporate needs for a full-stack IT DLM are increasing, DLM solution providers have gradually begun to provide a portfolio of services including device recycling business, device subscription services, IT technical subscription services and device management SaaS.
- *Growing penetration rate of DLM.* There is a trend that enterprises in China are adopting DLM. SMEs adopt device subscription services to avoid the large initial procurement costs of IT equipment, and large companies are gradually adopting a DLM portfolio. As business scenarios of DLM have become more extensive, the market penetration rate will increase accordingly.

Impacts of COVID-19 on the DLM Market in China

COVID-19 accelerated the penetration of the overall DLM market. The COVID-19 pandemic has wielded a huge impact on the business operation for most SMEs, as SMEs are eager to reduce costs in order to maintain their basic operation. DLM solutions offer a way of cost reduction for SMEs and help them survive in this pandemic. Hence, a considerable number of SMEs have chosen to adopt DLM solutions instead of the traditional procurement of IT devices. Moreover, the majority of white-collar workers are required to work remotely under relevant COVID-19 measures, which has considerably increased the demand for IT devices, such as laptops. This surge of the demand of IT devices has offered an enormous market opportunity for China’s DLM market. Furthermore, COVID-19 has stimulated the demand for conference devices such as projectors and display screens. During the COVID-19 pandemic, physical meetings have to be switched to online meetings. It has largely created the need for video conferencing devices and tools which has also facilitated the growth of China’s DLM market. In conclusion, the impact on China’s DLM market is relatively minor compared to other countries.

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Cost Analysis of the DLM Market in China

The costs of DLM mainly consist of those of the IT device procurement and labor. Specifically, with respect to the IT device procurement cost, China’s producer price index (PPI) for computers, communication and other electronic devices is relatively stable, fluctuating around PPI 99. Regarding the labor cost, the average annual salary in the information transmission, software and information technology services industry has risen from RMB122,478 in 2016 to RMB177,544 in 2020.

REGULATORY OVERVIEW

REGULATIONS ON PROPERTY LEASE

On May 28, 2020, the National People’s Congress (the “NPC”) approved the Civil Code (《中華人民共和國民法典》) (the “**Civil Code**”), came into effect on January 1, 2021 and replaced the Property Law (《中華人民共和國物權法》), the Contract Law (《中華人民共和國合同法》) and several other basic civil laws in the PRC. The Civil Code, which basically follows the current regulatory principles of property rental industry, became the legal foundation for the property rental services in the PRC. Prior to the effectiveness of the Civil Code, the Property Law and the Contract Law have laid down the basic legal framework for the property lease in China. The Civil Code sets out that (1) the creation, alteration, transfer or termination of a real right of an immovable property shall be subject to registration in accordance with the law, (2) the creation or transfer of a real right of a movable property shall be subject to delivery in accordance with the law, (3) the creation or transfer of the real rights of a movable shall come into effect upon delivery, unless otherwise prescribed by any law. A lease contract is a contract under which the lessor delivers to the lessee the leased object for the lessee to use or benefit therefrom, and the lessee pays the rent for the lease, (4) with the consent of the lessor, the lessee may sublease the leased object to a third person, where the lessee subleases the leased object, the lease contract between the lessee and the lessor shall continue to be valid, and the lessee shall be liable to the lessor for compensation for any loss caused to the leased object by the third person.

LAWS AND REGULATIONS RELATING TO AUCTION SEGMENT

According to the Auction Law of the People’s Republic of China (《中華人民共和國拍賣法》) which was promulgated by the SCNPC on July 5, 1996 and implemented on January 1, 1997, and subsequently revised on August 28, 2004 and April 24, 2015, and the Measures for the Administration of Auctions (《拍賣管理辦法》) (the “**Administration of Auctions**”) which was promulgated by the MOFCOM on October 2, 1994 and implemented on October 2, 1994, and subsequently revised on December 2, 2004, October 28, 2015 and November 30, 2019, no auction house shall engage in any auction business before receiving an auction business license. Commercial departments at local levels shall grant an enterprise that fulfills relevant requirements with the Approval Certificate of Auction Business. If any articles or property rights are prohibited for sale by laws or regulations, or their ownership or right of disposition is in dispute, or they are goods under the Customs control for which Customs formalities have not been completed, then the auction of such articles and property rights is prohibited. An auction house shall have the right to verify itself or require the consignor to specify in writing the sources and defects of the auction objects. Where an auction house and consignor have declared, prior to the auction sale, that they cannot guarantee the authentication or quality of an auction object, they shall be free from any warranty liability for the defects of the object. However, if the auction house or the consignor clearly knows or should have known that the auction object is defective, such disclaimer is invalid. The auction house shall exhibit the auction objects for at least two days prior to the auction sale, except for fresh goods or other perishable goods. After a transaction is concluded, the buyer and the auction house shall

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execute a written confirmation. The auction house shall keep the complete books of accounts, auction record and other relevant information relating to business operations for no less than five years, counting from the date of expiration of the contract for authorization of auction.

The competitive auction on our proprietary online bidding platform, which can be accessed through jp.lr-amm.com, a website owned by us, is subject to the regulation of the Administration of Auctions. However, since such competitive auction only applies to the sales of our own IT devices on our proprietary online bidding platform, it does not constitute an auction action for which an auction license should be obtained under the Administration of Auctions. As such, we are not an auction company that accepts the entrustment of the consignor to auction the consignor’s items, and we are not obliged to obtain an auction license for our online bidding platform.

REGULATIONS RELATING TO COMPANY ESTABLISHMENT AND FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC is governed by the Company Law of PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was issued by the SCNPC on December 29, 1993, and became effective on October 26, 2018. Limited liability companies and stock limited companies established in the PRC shall be subject to the PRC Company Law. A foreign-invested company is also subject to the PRC Company Law unless otherwise provided by the foreign investment laws. On December 24, 2021, the draft amendment to the PRC Company Law was published for public comments by the Standing Committee of the 13th National People’s Congress. The amendment made systematic changes to the existing PRC company law. There are uncertainties regarding the final form of these regulations as well as the interpretation and implementation thereof after promulgation.

On March 15, 2019, the NPC approved the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”), which became effective on January 1, 2020, and replaced the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法》). It becomes the legal foundation for foreign investment in the PRC. On December 26, 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on January 1, 2020 and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法實施條例》), Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中外合資經營企業合營期限暫行規定》), the Regulations on Implementing the Wholly Foreign Invested Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》) and the Regulations on Implementing the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法實施細則》).

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The Foreign Investment Law sets out the basic regulatory framework for foreign investments and proposes to implement a management system of pre-establishment national treatment with a negative list for foreign investments, which regulated that (i) foreign natural persons, enterprises or other organizations (collectively the “**Foreign Investors**”) shall not invest in any sector forbidden by the negative list for access of foreign investment, (ii) for any sector restricted by the negative list, Foreign Investors shall conform to the investment conditions provided in the negative list, and (iii) sectors not included in the negative list shall be managed under the principle that domestic investment and foreign investment shall be treated equally. The Foreign Investment Law also sets forth necessary mechanisms to facilitate, protect and manage foreign investments and proposes to establish a foreign investment information report system in which Foreign Investors or foreign-invested enterprises shall submit the investment information to competent departments of commerce through the enterprise registration system and the enterprise credit information publicity system. The organization form and structure and operating rules of foreign-invested enterprises are subject to the provisions of the PRC Company Law, the Partnership Enterprise Law of the PRC (《中華人民共和國合夥企業法》) and other applicable laws, if applicable.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign Invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》). Since January 1, 2020, for carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce administrative authorities through the Enterprise Registration System (企業登記系統) and the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) pursuant to these measures.

The Catalog for the Guidance of Foreign Investment Industries

Investments in the PRC by Foreign Investors and foreign-invested enterprises were regulated by the Catalog for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》), last repealed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**Negative List 2021**”) which was promulgated by the National Development and Reform Commission and the MOFCOM on December 27, 2021 and became effective on January 1, 2022 and the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄(2020年版)》) (the “**Encouraging Catalog 2020**”) which was promulgated by the National Development and Reform Commission and the MOFCOM on December 27, 2020 and became effective on January 27, 2021. Pursuant to the Encouraging Catalog and the Negative List, foreign-invested projects are categorized as encouraged, restricted and prohibited. Foreign-invested projects that are not listed in the Negative List are permitted foreign invested projects.

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Pursuant to the Negative List 2021, our business does not fall under such categories where foreign investment is restricted or prohibited.

REGULATIONS RELATING TO M&A RULES

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAMR, the CSRC and the SAFE, issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which took into effect on September 8, 2006 and were amended by the MOFCOM on June 22, 2009. The M&A Rules, among other things, require that if an overseas company established or controlled by PRC companies or individuals intends to acquire equity interests or assets of any other PRC domestic company affiliated with such PRC companies or individuals, such acquisition must be submitted to MOFCOM for approval. The M&A Rules also require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of CSRC prior to publicly listing their securities on an overseas stock exchange. After the Foreign Investment Law and its implementation regulations became effective on January 1, 2020, the provisions of the M&A Rules remain effective to the extent they are not inconsistent with the Foreign Investment Law and its implementation regulations.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The Trademark Law

The Trademark Law of the PRC (《中華人民共和國商標法》) which was amended by the SCNPC on April 23, 2019 and came into effect on November 1, 2019, and the Implementation Rules of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) which was adopted by the State Council on August 3, 2002 and amended on April 29, 2014, stipulate the application, examination and approval, renewal, alternation, transfer, use and invalidation of trademark registration, and protect the trademark rights entitled to trademark registrants. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the State Administration for Industry and Commerce of the PRC (the China National Intellectual Property Administration has been established to undertake the duties of the Trademark Office in March, 2018) handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. An application of registration renewal shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office for record. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a “first come,

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first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

The Patent Law

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) which was promulgated by the SCNPC on March 12, 1984, last amended on October 17, 2020 and came into effect on June 1, 2021 as well as the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) promulgated by the China Patent Bureau Council on January 19, 1985 and last amended by the State Council on January 9, 2010, patents in China are divided into invention patent, utility models patent and design patent. Invention patent refers to new technical solutions for a product, method or its improvement; utility patent refers to new technical solutions for the shape, structure or the combination of both shape and structure of a product, which is applicable for practical use; design patent refers to new designs of the shape, pattern or the combination of shape and pattern, or the combination of the color, the shape and pattern of a product with esthetic feeling and industrial application value. Invention patent shall be valid for 20 years from the date of application while utility patent shall be valid for ten years from the date of application, and design patent shall be valid for fifteen years from the date of application. The patent right entitled to its owner shall be protected by the laws. Any person shall be licensed or authorized by the patent owner before using such patent. Otherwise, the use of which constitutes an infringement of the patent right.

In addition, the Patent Law of the PRC (Revised in 2020) (《中華人民共和國專利法(2020年修訂)》) has several substantial changes compared with the last revision of the Patent Law, which came into effect on October 1, 2009, on the following aspects: (i) clarifying the incentive mechanism for inventor or designer relating to service inventions; (ii) extending the duration of design patent; (iii) establishing a new system of “open licensing” (開放許可); (iv) improving the distribution of burden of proof in patent infringement cases; and (v) increasing the compensation for patent infringement.

The Copyright Law

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) which was promulgated by the SCNPC on September 7, 1990 and last amended on November 11, 2020 and came into effect on June 1, 2021, Chinese citizens, legal persons or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software created in writing or oral or other forms. A copyright holder shall enjoy a number of rights, including the right of publication, the right of authorship and the right of reproduction.

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Pursuant to the Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) promulgated by the National Copyright Administration on February 20, 2002, and the Regulation on Computers Software Protection (《計算機軟件保護條例》) promulgated by the State Council on June 4, 1991 and amended on January 30, 2013 and came into effect on March 1, 2013, the National Copyright Administration is mainly responsible for the registration and management of software copyright in China and recognizes the China Copyright Protection Center as the software registration organization. The China Copyright Protection Center shall grant certificates of registration to computer software copyright applicants in compliance with the regulations of the Measures for the Registration of Computer Software Copyright and the Regulation on Computers Software Protection.

Domain Names

Pursuant to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT on August 24, 2017 and came into effect on November 1, 2017, establishing any domain name root server and institution for operating domain name root servers, managing the registration of domain name and providing registration services in relation to domain name within the territory of China shall be subject to the approval of the MIIT or provincial, autonomous regional and municipal communications administration. The registration of domain name shall follow the principle of “first apply, first register.” The Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Internet Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》) promulgated by the MIIT on November 27, 2017 and came into effect on January 1, 2018 specifies the obligation of anti-terrorism and maintaining network security of internet information service providers.

REGULATIONS RELATING TO INTERNET SECURITY, INFORMATION SECURITY AND DATA PRIVACY

Regulations Relating to Internet Security

Internet information in China is regulated and restricted from a national security standpoint. The SCNPC, enacted the Decisions on Maintaining Internet Security (《關於維護互聯網安全的決定》) on December 28, 2000, and amended on August 27, 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security of the PRC has promulgated the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》) on December 16, 1997 and the State Council of the PRC has amended it on January 8, 2011 to prohibit use of the Internet in ways which, among other things, result in a leakage of state secrets or infringement of the legitimate rights and interests of the state, the society, the community or the citizens.

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On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the PRC, or the Cyber Security Law (《網絡安全法》), which became effective on June 1, 2017. The Cyber Security Law requires network operators to comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. The Cyber Security Law further requires network operators to take all necessary measures in accordance with applicable laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

Regulations Relating to Information Security and Data Privacy

On December 29, 2011, the MIIT issued Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2021. Several Provisions on Regulating the Market Order of Internet Information Services provides that an Internet information service provider may not collect any user’s personal information or provide any such information to third parties without such user’s consent. Pursuant to the Several Provisions on Regulating the Market Order of Internet Information Services, Internet information service providers are required to, among others, (i) expressly inform the users of the method, content and purpose of the collection and processing of such users’ personal information and may only collect such information necessary for the provision of its services; and (ii) properly maintain the users’ personal information, and in case of any leak or possible leak of a user’s personal information, Internet information service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

Pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》), issued by the SCNPC in December 2012, and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》), issued by the MIIT in July 2013, any collection and use of any user personal information must be subject to the consent of the user, and abide to the applicable law, rationality and necessity of the business and comply with the requirement on the specified purposes, methods and scopes in the applicable laws.

In addition, pursuant to Cyber Security Law of the PRC, the “personal information” refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify individuals’ personal information including but not limited to: individuals’ names, dates of birth, ID numbers, biologically identified personal information, addresses and telephone numbers. The Cyber Security Law also provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative

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regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, if the information has been processed and cannot be recovered, and thus it is impossible to match such information with specific persons, such circumstance is an exception. Furthermore, under the Cyber Security Law, network operators of key information infrastructure shall store the personal information and important data collected and produced during their operations in the PRC, within the territory of the PRC.

Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that need to obtain personal information of others shall obtain such information legally and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

On 10 June 2021, the SCNPC promulgated the Data Security Law of People’s Republic of China (《中華人民共和國數據安全法》) (the “**PRC Data Security Law**”), which became effective on 1 September 2021. Pursuant to the PRC Data Security Law, data refers to any record of information in electronic or any other form and data processing, including but is not limited to, the collection, storage, use, processing, transmission, provision, and public disclosure of data. Industrial sector, telecommunications, transportation, finance, natural resources, health, education, science and technology, and other departments shall undertake the duty to supervise data security in their respective industries and fields. The PRC Data Security Law stipulates that each organization or individual collecting data shall adopt legal and proper methods, and shall not steal or obtain data by any illegal methods, and the data processing activities shall comply with laws and regulations, respect social mores and ethics, comply with commercial ethics and professional ethics, be honest and trustworthy, perform obligations to protect data security, and undertake social responsibility; and it shall not endanger national security, the public interest, or individuals’ and organizations’ lawful rights and interests.

According to the Measures for Cybersecurity Review (《網絡安全審查辦法》) which was jointly promulgated by the CAC and other twelve PRC regulatory authorities on December 28, 2021 and effective in February 15, 2022, (i) the purchase of cyber products and services by critical information infrastructure operators (the “**CIIOs**”) and the network platform operators (the “**Network Platform Operators**”) who engage in data processing activities that affect or may affect national security shall be subject to the cybersecurity review by the Cybersecurity Review Office, which is responsible for the implementation of cybersecurity review under the CAC and (ii) the Network Platform Operators possessing personal information data of more than one million users that seek for listing in a foreign country are obliged to apply for a cybersecurity review by the Cybersecurity Review Office. Further, the relevant governmental authorities in the PRC may initiate cybersecurity review if such governmental authorities determine the cyber products or services, and data processing activities affect or may affect the national security.

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On November 14, 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》), or the Draft Data Security Regulations. According to the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cybersecurity review if its intended listing in Hong Kong affects or may affect national security. Furthermore, the Draft Data Security Regulations stipulate that data processors processing personal information of more than one million users shall be subject to the various requirements that apply to important data processors. As of the Latest Practicable Date, the Draft Data Security Regulations have not been formally adopted.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WELFARE

The Labor Contract Law

Pursuant to the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), issued on June 29, 2007, amended on December 28, 2012 and newly effective on July 1, 2013, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner.

According to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on July 5, 1994 and last amended and newly effective on December 29, 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) promulgated on April 27, 2003, implemented on January 1, 2004 and amended on December 20, 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) promulgated on December 14, 1994 and implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated on October 28, 2010 and implemented on July 1, 2011 and amended on December 29, 2018, enterprises are obliged to

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provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and if employers fail to contribute, they may be ordered to make up within a prescribed time limit and may be liable for a late payment fee equal to 0.05% of the outstanding contribution amount for each day of delay.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State Council on April 3, 1999 and amended on March 24, 2002 and March 24, 2019, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, and these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner. If an employer fails to undertake contribution registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than 10,000 yuan nor more than 50,000 yuan shall be imposed. Furthermore, if an employer is overdue in the contribution of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the contribution within a prescribed time limit; where the contribution has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

Pursuant to the Reform Plan of the State Tax and Local Tax Collection Administration System (《國稅地稅徵管體制改革方案》), which was promulgated by the General Office of the Communist Party of China and the General Office of the State Council of the PRC on July 20, 2018, from January 1, 2019, all the social insurance premiums including the premiums of the basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance will be collected by the tax authorities. According to the Notice of the General Office of the State Taxation Administration on Conducting the Relevant Work Concerning the Administration of Collection of Social Insurance Premiums in a Steady, Orderly and Effective Manner (《國家稅務總局辦公廳關於穩妥有序做好社會保險費徵管有關工作的通知》) promulgated on September 13, 2018 and the Urgent Notice of the General Office of the Ministry of Human Resources and Social Security on Implementing the Spirit of the Executive Meeting of the State Council in Stabilizing the Collection of Social Insurance Premiums (《人力資源和社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated on September 21, 2018, all the local authorities responsible for the collection of social insurance are strictly forbidden to conduct self-collection of historical unpaid social insurance contributions from enterprises. Notice of the State Administration of Taxation on Implementing the Several Measures to Further Support and Serve the Development of Private Economy (《國家稅務總局關於實施進一步支持和服務民營經濟發展若干措施的通知》) promulgated on November 16, 2018, repeats that tax authorities at all levels may not organize self-collection of arrears of taxpayers including private enterprises in the previous years.

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National Medical Insurance Program

The national medical insurance program was adopted pursuant to the Decision of the State Council on the Establishment of the Urban Employee Basic Medical Insurance Program (《關於建立城鎮職工基本醫療保險制度的決定》) issued by the State Council on December 14, 1998, under which all employers in urban cities are required to enroll their employees in the Urban Employee Basic Medical Insurance Program and the insurance premium is jointly contributed by the employers and employees. Pursuant to the Opinions on the Establishment of the New Rural Cooperative Medical System (《關於建立新型農村合作醫療制度意見的通知》) forwarded by the General Office of the State Council on January 16, 2003, China launched the New Rural Cooperative Medical System to provide medical insurance for rural residents in selected areas which has since spread to the whole nation. The State Council promulgated the Guiding Opinions of the State Council about the Pilot Urban Resident Basic Medical Insurance (《國務院關於開展城鎮居民基本醫療保險試點的指導意見》) on July 10, 2007, under which urban residents of the pilot district, rather than urban employees, may voluntarily join Urban Resident Basic Medical Insurance. In 2015, the PRC government announced the Outline for the Planning of the National Medical and Health Service System (2015-2020) (《全國醫療衛生服務體系規劃綱要(2015-2020年)》) which aims to establish a basic medical and health care system that covers both rural and urban citizens by 2020.

On January 3, 2016, the State Council issued the Opinions on Integrating the Basic Medical Insurance Systems for Urban and Rural Residents (《國務院關於整合城鄉居民基本醫療保險制度的意見》) to integrate the Urban Resident Basic Medical Insurance and the New Rural Cooperative Medical System and the establishment of a unified Basic Medical Insurance for Urban and Rural Residents, which will cover all urban and rural non-working residents except for rural migrant workers and persons in flexible employment arrangements who participate in the basic medical insurance for urban employees.

With regard to reimbursement for medical devices and diagnostic tests, the Notice of Opinion on the Diagnosis and Treatment Management, Scope and Payment Standards of Medical Service Facilities Covered by the National Urban Employees Basic Medical Insurance Scheme (《關於印發城鎮職工基本醫療保險診療項目管理、醫療服務設施範圍和支付標準意見的通知》) prescribes the coverage of diagnostic and treatment devices and diagnostic tests where part of the fees is paid through the basic medical insurance scheme. It also includes a negative list that precludes certain devices and medical services from governmental reimbursement. Detailed reimbursement coverage and rate for medical devices and medical services (including diagnostic tests and kits) are subject to each province’s local policies.

REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is the Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), which were promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996, and amended on January 14, 1997 and August 5, 2008 (the “**Forex Regulations**”). According to the Forex Regulations, international payments in foreign currencies and transfers of foreign

REGULATORY OVERVIEW

currencies under current account, such as payments of dividends or interests, shall not be restricted. Foreign currency transactions under the capital account, such as direct investment and capital contributions, are still subject to restrictions and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

According to the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Involved in Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) announced by the SAFE on December 26, 2014, the SAFE and its branch offices and administrative offices shall oversee, regulate and inspect domestic companies regarding their business registration, opening and use of accounts, trans-border payments and receipts, exchange of funds and other conducts involved in overseas listing. Domestic company shall, within 15 working days upon the end of its public offering overseas, handle registration formalities for overseas listing with the foreign exchange authority at its place of registration with the required materials.

According to the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), the foreign exchange receipts under capital accounts of domestic institutions are subject to discretionary settlement policies. That the foreign exchange receipts under capital accounts (including foreign exchange capital, foreign debts, and repatriated funds raised through overseas listing) subject to discretionary settlement as expressly prescribed in the relevant policies may be settled with banks according to the actual need of domestic institutions for business operations clearly implemented in relevant policies. Domestic institutions may, at their discretion, settle up to 100% of foreign exchange receipts under capital accounts for the time being. The SAFE may adjust the above proportion in due time according to balance of payments. While being eligible for discretionary settlement of foreign exchange receipts under capital accounts, domestic institutions may also opt to use their foreign exchange receipts according to the payment-based settlement system. A bank shall, in handling each transaction of foreign exchange settlement for a domestic institution according to the principle of payment-based settlement, review the authenticity and compliance of the use of the fund settled in the previous transaction (including discretionary settlement and payment-based settlement) of such institution. The funds shall not, directly or indirectly, be used for expenditure beyond the enterprise’s business scope or expenditure prohibited by laws and regulations of the State. Unless otherwise specified, the funds shall not, directly or indirectly, be used for investments in securities or other investments than banks’ principal-secured products. The funds shall not be used for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license. The funds shall not be used for the construction or purchase of real estate for purposes other than self-use (except for real estate enterprises).

REGULATORY OVERVIEW

According to the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (《關於優化外匯管理支持涉外業務發展的通告》) issued by the SAFE on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their capital, foreign credits and the income under capital accounts of overseas listing, with no need to provide the evidentiary materials concerning authenticity of such capital for banks in advance, provided that their capital use shall be authentic and in line with provisions, and conform to the prevailing administrative regulations on the use of income under capital accounts. The concerned bank shall conduct spot checking in accordance with the relevant requirements.

REGULATIONS RELATING TO FOREIGN EXCHANGE REGISTRATION OF OVERSEAS INVESTMENT BY PRC RESIDENTS

On July 4, 2014, the SAFE promulgated the Notice on Relevant Issues Relating to Domestic Residents’ Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”) for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. Under the SAFE Circular 37, (i) before the PRC residents or entities conducting investment in offshore special purpose vehicles with their legitimate onshore and offshore assets or equities, they must register with local SAFE branches with respect to their investments; and (ii) following the initial registration, they must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term, increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions).

The SAFE further promulgated the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”) on February 13, 2015, which came into effect on June 1, 2015 and allows PRC residents or entities to register with qualified banks in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. The SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary.

REGULATORY OVERVIEW

Regulations Relating to Employee Stock Incentive Plan

On February 15, 2012, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues concerning the Foreign Exchange Administration of Domestic Individuals’ Participation in Equity Incentive Plans of Overseas Listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or the Stock Option Rules. In accordance with the Stock Option Rules and relevant rules and regulations, PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year, who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with the SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain procedures. We and our employees who are PRC citizens or who reside in China for a continuous period of not less than one year and who participate in our stock incentive plan will be subject to such regulation. In addition, the SAT has issued circulars concerning employee share options or restricted shares. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares vest, will be subject to PRC individual income tax (the “IIT”). The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold IIT of those employees related to their share options or restricted shares. If the employees fail to pay, or the PRC subsidiaries fail to withhold, their IIT according to relevant laws, rules and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

REGULATIONS RELATING TO TAX

Enterprise Income Tax

According to the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》), which was enacted on March 16, 2007, effective from January 1, 2008 and amended on February 24, 2017 and December 29, 2018 and the Implementation Regulations for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which was enacted on December 6, 2007 by the State Council, became effective on January 1, 2008 and was amended on April 23, 2019 (collectively, the “EIT Law”), taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have not established such institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform Enterprise income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment

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institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

Value-added Tax and Business Tax

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) promulgated by the SAT and MOF on March 23, 2016 and effective from May 1, 2016 (as amended), the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and the VAT rate of cultural creativity industry, categorized in modern service industry, is 6%.

The Provisional Regulations of PRC Concerning Value-added Tax (《中華人民共和國增值稅暫行條例》) (the “**VAT Regulations**”) was promulgated by the State Council on December 13, 1993 and amended on November 10, 2008, February 6, 2016 and November 19, 2017. The Implementing Rules for the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) (the “**Implementing Rules on VAT**”) was promulgated by the MOF on December 25, 1993, first amended on December 15, 2008 and came into effect on January 1, 2009, subsequently amended on October 28, 2011 and effective on November 1, 2011. Under the VAT Regulations and Implementing Rules on VAT, entities and individuals selling goods, providing labor services of processing, repairing or maintenance, or selling services, intangible assets or real property in China, or importing goods to China, shall be identified as taxpayers of value-added tax, and shall pay value-added tax. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%, in certain limited circumstances, 11%.

According to the Interim Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》) (the “**BT Regulations**”) promulgated by the State Council on December 13, 1993 and amended on November 10, 2008, all units and individuals providing taxable services as prescribed in the BT Regulations, transferring intangible assets or selling immovable properties within the territory of the PRC shall be taxpayers of business tax, and shall pay business tax in accordance with these Regulations. For taxpayers providing services, transferring intangible assets or selling immovable properties under different tax items, the turnover, transfer and sales volume under different tax items shall be accounted for respectively. Where the turnover has not been accounted for respectively, a higher tax rate shall apply. The BT Regulations has been abolished by the State Council on November 19, 2017.

According to the Notice of the MOF and the SAT on the Adjustment to VAT Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》) which was promulgated by MOF and SAT on April 4, 2018 and came into effect on May 1, 2018, the deduction rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. According to the Announcement on Policies for

REGULATORY OVERVIEW

Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) which was promulgated by the MOF, the SAT and General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, for general VAT payers' sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively.

Withholding Tax on Dividend Distribution

Furthermore, pursuant to the EIT Law and the Implementation Rules on the Enterprise Income Tax of the PRC (《中華人民共和國企業所得稅法實施條例》) which were promulgated on December 6, 2007 and with effect from January 1, 2008 and amended on April 23, 2019, a withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their non-PRC enterprise investors. In addition, pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, and applicable in Hong Kong to income derived in any year of assessment commencing on or after April 1, 2007 and in mainland China to any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries, if it holds a 25% or more of equity interest in each such PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% equity interest in that subsidiary. According to the Notice of the SAT on Issues regarding the Implementation of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated on February 20, 2009, recipients of dividends paid by PRC enterprises must satisfy certain requirements in order to obtain a preferential income tax rate pursuant to a tax treaty, such as the taxpayer must be the "beneficiary owner" of relevant dividends. In order for a corporate recipient of dividends paid by a PRC enterprise to enjoy preferential tax treatment pursuant to a tax treaty, such recipient must be the direct owner of a certain proportion of the share capital of the PRC enterprise at all times during the 12 months preceding its receipt of the dividends. In addition, the Announcement of the State Administration of Taxation on Issues concerning the "Beneficial Owner" in Tax Treaties (《國家稅務總局關於稅收協定中"受益所有人"有關問題的公告》) promulgated on February 3, 2018 and became effective on April 1, 2018, defined the "beneficial owner" as a person who owns or controls income or the rights or property based on which the income is generated, and introduced various factors to adversely impact the recognition of such "beneficiary owners". On August 27, 2015, the SAT issued the Announcement of the State Administration of Taxation on Promulgation of the "Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties" (《國家稅務總局關於發佈〈非居民納稅人享受協定待遇管理辦法〉的公告》), effective on November 1, 2015, and amended on June 15, 2018, and October 14, 2019 (the last amendment came into effect on January 1, 2020), which applies to entitlement to tax treaty benefits by non-resident taxpayers incurring tax payment obligation in the PRC. According to the Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties, non-resident taxpayers who make their own declaration shall make self-assessment regarding whether they are entitled to tax treaty benefits, and submit the relevant materials stipulated in Article 7 of the Measures.

REGULATORY OVERVIEW

REGULATIONS RELATING TO PRODUCT LIABILITY AND PROTECTION OF CONSUMERS’ RIGHTS

Pursuant to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) which was promulgated by the SCNPC on February 22, 1993 and amended on December 29, 2018, producers and sellers shall have their own proper regulations for the management of product quality, rigorously implementing post-oriented quality regulations, quality liabilities and relevant measures for their assessment. Producers and sellers are responsible for the product quality according to the provisions of the laws.

The product quality supervision and administration departments of the State Council are responsible for the supervision and administration of the quality of products of the whole country. All relevant departments of the State Council shall be responsible for the supervision of product quality within their own functions and duties.

Quality of products shall pass standard examinations and no substandard products shall be used as standard ones. Industrial products which may be hazardous to the health of the people and the safety of lives and property shall conform to the state and trade standards for ensuring the health of the human body and safety of lives and property. In absence of such state or trade standards, the products shall conform to the minimum requirements for ensuring the health of the human body and the safety of lives and property. It shall be prohibited to produce or sell industrial products that do not come to the requirements and demands for physical health and safety of body and property. Producers or sellers shall be responsible for any compensation arising from their unlawful acts such as production or sales of defective, eliminated or ineffective products, faking the place of origin or quality marks, mixing or adulterating products or passing off imitations as genuine, substandard products as quality ones or non-conforming products as conforming. Proceeds from the sales may be confiscated, the business license may be revoked and penalties may be imposed. If the case is serious, criminal responsibilities shall be investigated. Producers or sellers shall be liable for any damage to any person or property due to the defects of products resulting from the default of the producers or sellers.

REGULATIONS RELATING TO OVERSEAS SECURITIES OFFERING AND LISTING

On December 24, 2021, the State Council’s Administrative Regulations on Overseas Issuance and Listing of Securities by Domestic Enterprises (Draft for Public Comments) (《國務院關於境內企業境外發行證券和上市的管理規定》(草案徵求意見稿)) and the Administrative Measures on Filing of Overseas Issuance and Listing of Securities by Domestic Enterprises (Draft for Public Comments) (《境內企業境外發行證券和上市備案管理辦法》(徵求意見稿)) was released for public comments by the CSRC. Pursuant to these regulations, a domestic enterprise that applying for listing abroad shall, among others, complete record-filing procedures and report relevant information to the securities regulatory authority as required. There are uncertainties regarding the final form of these regulations as well as the interpretation and implementation thereof after promulgation.

REGULATORY OVERVIEW

REGULATION OF ADVERTISEMENT

Pursuant to the Advertisement Law of the PRC (《中華人民共和國廣告法》), which was promulgated by the SCNPC on October 27, 1994, and most recently amended and effective from April 29, 2021, advertisements shall not contain false statements or be deceitful or misleading to consumers.

Pursuant to the Interim Measures for the Administration of Internet Advertisement (《互聯網廣告管理暫行辦法》) which was promulgated by the SAIC on July 4, 2016 and became effective as of September 1, 2016, the Internet advertisement must be visibly marked as “advertisement”.

REGULATION OF ANTI-BRIBERY

According to the Anti-Unfair Competition Law (《反不正當競爭法》) promulgated by the SCNPC, as amended and effective as of April 23, 2019, and the Interim Provisions on the Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) promulgated by the SAIC on November 15, 1996, any business operator shall not provide or promise to provide economic benefits (including cash, other property or by other means) to a counter-party in a transaction or a third party that may be able to influence the transaction, in order to entice such party to secure a transactional opportunity or a competitive advantages for the business operator. Any business operator breaching the relevant anti-bribery rules above-mentioned may be subject to administrative punishment or criminal liability depending on the seriousness of the cases.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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 Group was founded and managed by Mr. Hu, who has 18 years of extensive experience in the DLM industry. For details of Mr. Hu’s biography, see “Directors and Senior Management” of this document.

KEY MILESTONES

The following sets forth certain key business development milestones of our Group:

Year	Milestone Event
2004	Shenzhen LX was established in November 2004 for carrying out our computer assembly services and sales of second-hand computers business.
2008	We became one of the largest retailers of second-hand computers in the PRC in 2008, according to CIC and expanded our business to IT device subscription and related services.
2013	LX Technology was established in May 2013 for carrying out our device subscription services.
2016	We received the Most Valuable Brand Award of China E-commerce (中國電子商務最具品牌價值獎) issued by China Electronic Commerce Association (中國電子商務協會) and China E-commerce Industry Portal Conference (中國電子商務行業門戶大會) in December 2016.
2017	Shenzhen Lingrui was established in April 2017 for carrying out our device recycling business.
2018	We received the award of Top 20 High-tech High-growth Companies in Shenzhen (深圳高科技高成長20強) issued by Deloitte China (德勤中國) and Shenzhen Chamber of Commerce (深圳市商業聯合會) in 2018. JD Jiangsu became one of LX Technology’s shareholders in 2018 as part of our Series A Investment. We launched our SaaS program through our proprietary software, Bear Butler in 2018.
2019	We established strategic business cooperation relationships with JD.com, Lenovo and HP Inc. in 2019. SME Fund and Tencent Shenzhen became LX Technology’s shareholders in 2019 as part of our Series B and Series C Investments. We received the award of National SME Public Service Demonstration Platform (國家中小企業公共服務示範平台) issued by MIIT in July 2019.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Milestone Event
2020	<p>We became one of the largest enterprise-focused IT device recycling business providers in the PRC in terms of the number of recycled devices in 2020, according to CIC.</p> <p>JD Jiangsu further increased its shareholding interest in LX Technology in 2020 as part of our Series D-1 Investment.</p> <p>JD.com opened up access to our DLM solutions through its homepage.</p>
2021	<p>HTI and Lenovo Beijing became LX Technology’s shareholders in 2021 as part of our Series D-2 and Series D-3 Investments.</p> <p>We received the award of Top Ten Sustainable Development Partners (十佳可持續發展合作夥伴) issued by JD.com in 2021.</p> <p>We received the award of Specialized and New “Little Giant” Enterprises (專精特新“小巨人”企業) issued by MIIT in July 2021.</p>

OUR MAJOR SUBSIDIARIES

We carry out our business through our operating subsidiaries in the PRC. During the Track Record Period and up to the Latest Practicable Date, we conducted our business activities primarily through the following major operating subsidiaries:

Name of major operating subsidiaries	Place of establishment	Principal business activities	Date of establishment	The Company’s shareholding percentage as of the Latest Practicable Date
LX Technology	PRC	Provision of DLM solutions	May 3, 2013	100.00%
Shenzhen LX	PRC	IT device subscription and IT technology subscription services	November 1, 2004	100.00%
Shenzhen Lingrui	PRC	IT device distribution and recycling businesses	April 17, 2017	100.00%

For more information of Shenzhen LX and Shenzhen Lingrui, see “Appendix IV – Statutory and General Information – A. Further Information about Our Group – 3. Changes in the share capital of our subsidiaries.”

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

LX Technology

1. Establishment and early development

LX Technology was established in the PRC as a limited liability company on May 3, 2013 with an initial registered capital of RMB10,000,000 and was owned as to 95% by Mr. Hu and 5% by Mr. Tang Youyuan (唐友元) (“**Mr. Tang**”). Pursuant to an equity transfer agreement entered into by Mr. Hu, Mr. He Jingwei (何靜為) (“**Mr. He**”), Mr. Zhuang Hua (張華) (“**Mr. Zhang**”) and Mr. Cao Weijun (曹維軍) (“**Mr. Cao**”) dated November 11, 2015, Mr. Hu respectively transferred 10%, 8% and 3% of the equity interests in LX Technology to Mr. He, Mr. Zhang and Mr. Cao at considerations of RMB1,000,000, RMB800,000 and RMB300,000. The aforesaid considerations were determined based on the then registered capital of LX Technology and fully settled in cash in December 2015. Upon completion of the aforesaid transfers on December 21, 2015, LX Technology was owned as to 74% by Mr. Hu, 10% by Mr. He, 8% by Mr. Zhang, 5% by Mr. Tang and 3% by Mr. Cao. Both Mr. Tang and Mr. He are the regional managers of LX Technology and Mr. Cao is our executive Director. Other than being a shareholder of our Company, Mr. Zhang is an Independent Third Party.

Subsequent to a series of equity transfers and increase in registered capital from January 2016 to March 2018, immediately prior to the Series A Investment (as defined below), LX Technology was owned as to 55% by Mr. Hu, 25% by Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)) (“**Hongyang Investment**”) and 20% by Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)) (“**LX Investment**”) with a registered capital of RMB55,000,000.

For the purpose of simplifying the shareholding structure of LX Technology, LX Investment and Hongyang Investment are established as limited liability partnerships in the PRC on November 1, 2017 and November 14, 2017, respectively. Immediately prior to the Reorganization, Mr. Hua Baocheng (“**Mr. Hua**”), an employee of LX Technology, was the sole general partner and held approximately 34.33% of interest in LX Investment. Mr. Hu held approximately 65.67% of interest as limited partner in LX Investment and such interest was reserved for our employee incentive plan. See “Employee Incentive Plans” below for more information.

Immediately prior to the Reorganization, Mr. Hu was the sole general partner and held approximately 5.15% of interest in Hongyang Investment. The remaining limited partnership interests of Hongyang Investment was owned as to approximately 41.32% by Mr. Zhang, 30.25% by Mr. He, 14.62% by Mr. Tang and 8.65% by Mr. Cao.

2. Series A Investment

On May 11, 2018, LX Technology, Mr. Hu, Hongyang Investment and LX Investment entered into a capital increase agreement with Shenzhen Dachen Chuangtong Equity Investment Enterprise (LLP) (深圳市達晨創通股權投資企業(有限合夥)) (“**Dachen Chuangtong**”), Ningbo Dachen Chuangyuan Equity Investment Partnership (LLP) (寧波市達

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

晨創元股權投資合夥企業(有限合夥) (“**Dachen Chuangyuan**”) and Jiangsu JD Bangneng Investment Management Co., Ltd. (江蘇京東邦能投資管理有限公司) (“**JD Jiangsu**”), pursuant to which Dachen Chuangtong, Dachen Chuangyuan and JD Jiangsu agreed to make a total capital contribution of RMB68,000,000 to LX Technology for subscribing its increased registered capital of RMB12,721,089.

Name of the Pre-[REDACTED] Investor	Registered capital subscribed for (RMB)	Consideration paid (RMB)	Date on which the consideration was fully settled in cash
Dachen Chuangtong	7,108,844	38,000,000	May 28, 2018
JD Jiangsu	3,741,497	20,000,000	June 1, 2018
Dachen Chuangyuan	1,870,748	10,000,000	May 30, 2018
Total	12,721,089	68,000,000	–

Further, on December 12, 2018, JD Jiangsu agreed to make an additional capital contribution of RMB18,000,000 to LX Technology for subscribing its increased registered capital of RMB3,367,347 (together with the aforesaid capital increase, collectively the “**Series A Investment**”). The aforesaid consideration was fully settled in cash by JD Jiangsu on February 1, 2019.

3. *Series B Investment*

On April 16, 2019, LX Technology, Small and Medium Enterprises Development Fund (Shenzhen Nanshan LLP) (中小企業發展基金(深圳南山有限合夥)) (“**SME Fund**”) and Shenzhen Futian District Zhongzhou Tiecheng Start-up Investment Enterprise (LLP) (深圳市福田區中洲鐵城創業投資企業(有限合夥)) (“**Zhongzhou Tiecheng**”) and the then existing shareholders of LX Technology entered into a capital increase agreement, pursuant to which Dachen Chuangtong, SME Fund and Zhongzhou Tiecheng agreed to make a total capital contribution of RMB130,000,000 to LX Technology for subscribing its increased registered capital of RMB15,558,076 (the “**Series B Investment**”).

Name of the Pre-[REDACTED] Investor	Registered capital subscribed for (RMB)	Consideration paid (RMB)	Date on which the consideration was fully settled in cash
SME Fund	7,779,038	65,000,000	May 24, 2019
Dachen Chuangtong	4,188,713	35,000,000	June 10, 2019
Zhongzhou Tiecheng	3,590,325	30,000,000	June 3, 2019
Total	15,558,076	130,000,000	–

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

4. Series C Investment

On November 26, 2019, LX Technology, Shenzhen Tencent Enterprise Innovation Development Co., Ltd. (深圳市騰訊創業創新發展有限公司) (“**Tencent Shenzhen**”) and the then existing shareholders of LX Technology entered into a capital increase agreement, pursuant to which Tencent Shenzhen agreed to make a capital contribution of RMB20,500,000 to LX Technology for subscribing its increased registered capital of RMB2,221,705 (the “**Series C Investment**”). The aforesaid consideration was fully settled in cash by Tencent Shenzhen on December 5, 2019.

5. Series D-1 Investment

On June 28, 2020, LX Technology, Dongguan Dachen Chuangjing Equity Investment Partnership (LLP) (東莞市達晨創景股權投資合夥企業(有限合夥)) (“**Dachen Chuangjing**”) and the then existing shareholders of LX Technology entered into a capital increase agreement, pursuant to which JD Jiangsu, Dachen Chuangtong and Dachen Chuangjing agreed to make a total capital contribution of RMB160,000,000 to LX Technology for subscribing its increased registered capital of RMB13,672,033 (the “**Series D-1 Investment**”).

Name of the Pre-[REDACTED] Investor	Registered capital subscribed for (RMB)	Consideration paid (RMB)	Date on which the consideration was fully settled in cash
JD Jiangsu	8,545,021	100,000,000	July 16, 2020
Dachen Chuangjing	3,418,008	40,000,000	July 3, 2020
Dachen Chuangtong	1,709,004	20,000,000	July 29, 2020
Total	13,672,033	160,000,000	–

6. Series D-2 Investment

On January 16, 2021, LX Technology, Shenzhen High-tech Investment Start-up Investment Co., Ltd. (深圳市高新投創業投資有限公司) (“**HTI**”), Hangzhou Mingcheng Zhihui Phase I Equity Investment Partnership (LLP) (杭州明誠致慧一期股權投資合夥企業(有限合夥)) (“**Hangzhou Mingcheng**”), Shanghai Hesheng Corporate Management Service Centre (LLP) (上海合聖企業管理服務中心(有限合夥)) (“**Hesheng Shanghai**”) and the then existing shareholders of LX Technology entered into a capital increase agreement, pursuant to which HTI, Hangzhou Mingcheng and Hesheng Shanghai agreed to make a total capital contribution of RMB60,000,000 to LX Technology for subscribing its increased registered capital of RMB3,845,260 (the “**Series D-2 Investment**”).

Name of the Pre-[REDACTED] Investor	Registered capital subscribed for (RMB)	Consideration paid (RMB)	Date on which the consideration was fully settled in cash
Hangzhou Mingcheng	1,922,630	30,000,000	January 26, 2021
HTI	1,281,753	20,000,000	January 28, 2021
Hesheng Shanghai	640,877	10,000,000	January 19, 2021
Total	3,845,260	60,000,000	–

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

7. Series D-3 Investment

On June 28, 2021, LX Technology, Lenovo (Beijing) Limited (聯想(北京)有限公司) (“**Lenovo Beijing**”) and the then existing shareholders of LX Technology entered into a capital increase and equity transfer agreement, pursuant to which Lenovo Beijing agreed to acquire approximately 0.56% and 0.23% of the then equity interest in LX Technology from Mr. Hu and LX Investment, respectively, at an aggregate consideration of RMB11,634,583 and make a capital contribution of RMB5,000,000 to LX Technology for subscribing its increased registered capital of RMB221,636 (the “**Series D-3 Investment**”). The consideration of the Series D-3 Investment was fully settled in cash by Lenovo Beijing on July 22, 2021.

For further details on the investments made by the Pre-[REDACTED] Investors and their background information, see “Pre-[REDACTED] Investments.”

Upon completion of the Series D-3 Investment on July 22, 2021, the registered capital of LX Technology was increased to RMB106,607,146 and LX Technology was owned by the following shareholders:

No.	Name of shareholder of LX Technology	Registered capital (RMB)	Approximate shareholding
1.	Mr. Hu ⁽¹⁾	29,655,565	27.82%
2.	JD Jiangsu	15,653,865	14.68%
3.	Hongyang Investment ⁽¹⁾	13,750,000	12.90%
4.	Dachen Chuangtong	13,006,561	12.20%
5.	LX Investment	10,750,000	10.08%
6.	SME Fund	7,779,038	7.30%
7.	Zhongzhou Tiecheng	3,590,325	3.37%
8.	Dachen Chuangjing	3,418,008	3.21%
9.	Tencent Shenzhen	2,221,705	2.08%
10.	Hangzhou Mingcheng	1,922,630	1.80%
11.	Dachen Chuangyuan	1,870,748	1.75%
12.	HTI	1,281,753	1.20%
13.	Lenovo Beijing	1,066,071	1.00%
14.	Hesheng Shanghai	640,877	0.60%
Total		106,607,146	100.00%

Note:

- (1) Mr. Hu has been the sole general partner of Hongyang Investment since its establishment, who manages the day-to-day affairs and exercise the voting rights of Hongyang Investment. As such, Mr. Hu controlled approximately 40.72% of the voting rights in LX Technology immediately upon completion of the Series D-3 Investment and before the Reorganization.

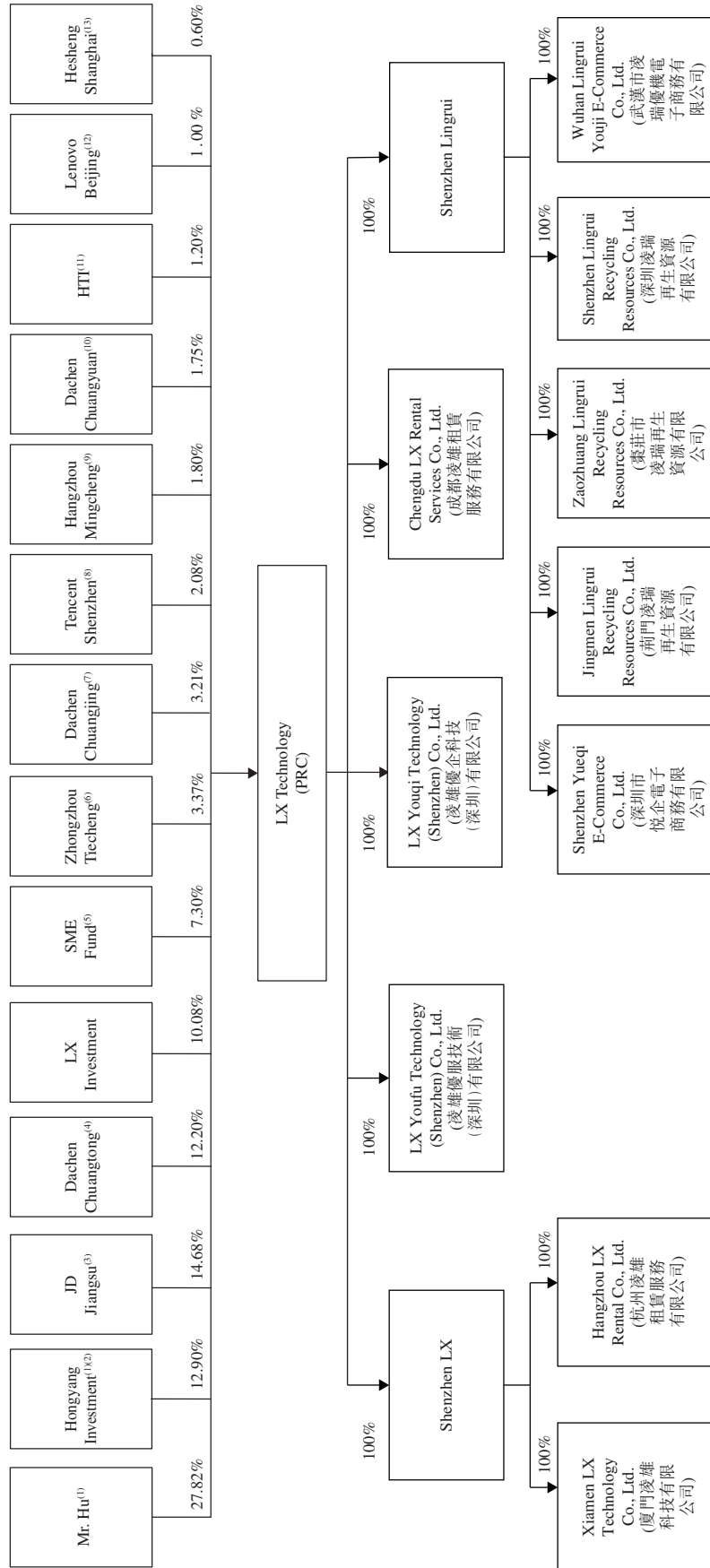
8. Conversion to a sino-foreign joint venture enterprise and acquisition by LX HK

As part of the Reorganization, LX Technology was converted to a sino-foreign joint venture enterprise and subsequently acquired by LX HK. See “Reorganization” below for further details. Upon completion of the aforesaid acquisition and as of the Latest Practicable Date, LX Technology was wholly owned by LX HK and was an indirect wholly-owned subsidiary of our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

The following chart sets forth our corporate structure before the Reorganization:



Notes:

- (1) Immediately prior to the Reorganization, Mr. Hu directly owned 27.82% of the equity interest in LX Technology.
- (2) Mr. Hu has been the sole general partner of Hongyang Investment since its establishment, who manages the day-to-day affairs and exercise the voting rights of Hongyang Investment. As such, Mr. Hu controlled approximately 40.72% of the voting rights in LX Technology immediately before the Reorganization.
- (3)-(13) See “Pre-[REDACTED] Investment – Background information of the Pre-[REDACTED] Investors” below for the detailed background information of each of the Pre-[REDACTED] Investors.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In preparation for the [REDACTED], the following steps were implemented to establish our Group.

Incorporation of our Company

On January 10, 2022, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Upon incorporation, the authorized share capital of our Company was HK\$7,600,000 divided into 760,000,000 shares of a par value of HK\$0.01 each, among which one (1) Ordinary Share was allotted and issued at par to an initial subscriber, an Independent Third Party. Such Share was transferred to Bear Family at par on January 10, 2022. On January 19, 2022, 44,777,900 ordinary Shares were allotted and issued to the following Shareholders:

Name of Shareholder	Number of Ordinary Shares	Approximate shareholding
Bear Family ⁽¹⁾	27,817,613	62.12%
Little Bear ⁽²⁾	7,568,442	16.90%
Charlie Bear Technology Limited (“Charlie Bear”) ⁽³⁾	5,329,380	11.90%
Gold Bear Technology Limited (“Gold Bear”) ⁽⁴⁾	3,461,307	7.73%
Trinity Limited (“Hesheng BVI”) ⁽⁵⁾	601,158	1.35%
Total	44,777,900	100.00%

Notes:

- (1) For the purpose of reflecting Mr. Hu’s direct equity interest in LX Technology at the Company level, Bear Family was incorporated in the BVI with limited liability on October 29, 2021, which is wholly-owned by Mr. Hu. 27,817,613 ordinary Shares were allotted and issued, credited as fully paid at par to Bear Family.
- (2) Little Bear was incorporated in the BVI with limited liability on November 5, 2021. It is incorporated to reflect the then equity interests of Hongyang Investment (other than Mr. Zhang’s interest) in LX Technology at the Company level. Little Bear is owned as to 8.78% by Mr. Hu, 51.56% by Mr. He, 24.91% by Mr. Tang and 14.75% by Mr. Cao, among whom Mr. Hu subscribed for the voting shares and the other shareholders subscribed for the non-voting shares. 7,568,442 ordinary Shares were allotted and issued, credited as fully paid at par to Little Bear. The arrangement that Mr. Hu holds voting shares in Little Bear while others hold non-voting shares reflects the fact that both Mr. Tang and Mr. He are the regional managers of LX Technology while Mr. Cao is our executive Director and their interests in Little Bear are primarily for enjoying economic benefits arising from shareholding in the Company. This is consistent with that of Hongyang Investment since its establishment where Mr. Hu has been the sole general partner of Hongyang Investment, as Little Bear is incorporated to reflect the then equity interests of Hongyang Investment (other than Mr. Zhang’s interest) in LX Technology at the Company level.
- (3) Immediately prior to the Reorganization, Mr. Zhang indirectly held approximately 5.33% of the equity interest in LX Technology via Hongyang Investment (“Mr. Zhang’s Interest”). Charlie Bear was incorporated in the BVI with limited liability on November 5, 2021, which is wholly-owned by Mr. Zhang. For the purpose of reflecting Mr. Zhang’s Interest at the Company level, 5,329,380 ordinary Shares were allotted and issued, credited as fully paid at par to Charlie Bear.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (4) Immediately prior to the Reorganization, Mr. Hua indirectly held approximately 3.46% of the equity interest in LX Technology via LX Investment (“**Mr. Hua’s Interest**”). Gold Bear was incorporated in the BVI with limited liability on November 5, 2021, which is wholly-owned by Mr. Hua. For the purpose of reflecting Mr. Hua’s Interest at the Company level, 3,461,307 ordinary Shares were allotted and issued, credited as fully paid at par to Gold Bear.
- (5) Hesheng BVI is an offshore affiliated entity designated by Hesheng Shanghai to subscribe for 601,158 ordinary Shares. Such ordinary Shares were redesignated as the Series D-2 Preferred Shares on March 28, 2022. See “Pre-[REDACTED] Investments – Background information of the Pre-[REDACTED] Investors” below for more information of Hesheng Shanghai and Hesheng BVI.

Incorporation of Bear Technology Group Limited 小熊科技集團有限公司 (“LX BVI”)

LX BVI was incorporated in the BVI with limited liability on January 10, 2022. Since the date of its incorporation, LX BVI has been authorized to issue a maximum of 50,000 shares of one class with a par value of US\$1.00 each. On January 19, 2022, one (1) ordinary share of LX BVI was allotted and issued, credited as fully paid at par to our Company as the sole shareholder. LX BVI is an intermediate holding company of our Group in BVI.

Incorporation of LX Technology (Hong Kong) Group Limited 凌雄科技集團(香港)有限公司 (“LX HK”)

LX HK was incorporated in Hong Kong with limited liability on January 26, 2022. On the same day, (i) one (1) share of LX HK was allotted and issued at a subscription price of HK\$1.00 to its initial subscriber, an Independent Third Party and the aforesaid share was transferred to LX BVI on January 28, 2022 and (ii) 9,999 shares were allotted and issued to LX BVI at a subscription price of HK\$9,999. LX HK is an intermediate holding company of our Group in Hong Kong.

Reduction of Registered Capital of LX Technology

Prior to the Reorganization, several rounds of investments were made in LX Technology by various Pre-[REDACTED] Investors and fully settled, including the Series A Investment, Series B Investment, Series C Investment, Series D-1 Investment, Series D-2 Investment and Series D-3 Investment.

On February 9, 2022, as part of the Reorganization, LX Technology and the then existing shareholders of LX Technology entered into a capital reduction agreement, pursuant to which the respective registered capital contributed by JD Jianguo, Dachen Chuangtong, SME Fund, Zhongzhou Tiecheng, Dachen Chuangjing, Tencent Shenzhen, Hangzhou Mingcheng, Dachen Chuangyuan, HTI, Lenovo Beijing and Hesheng Shanghai (collectively, the “**Capital Reduction Parties**”) in LX Technology was repurchased by LX Technology at the consideration equivalent to respective considerations paid by these Pre-[REDACTED] Investors when they subscribed for the registered capital of LX Technology at the relevant time (the “**Capital Reduction**”).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As a result, the registered capital of LX Technology was reduced from RMB106,607,146 to RMB54,155,565 and it was owned as to approximately 54.76% by Mr. Hu, 25.39% by Hongyang Investment and 19.85% by LX Investment. The consideration payable for the Capital Reduction is used by the relevant Capital Reduction Parties and/or their respective affiliates to subscribe for the Preferred Shares as described in the paragraph headed “– Subscription of Shares of our Company by the Capital Reduction Parties and Share Transfer by Little Bear” below.

Conversion of LX Technology to a sino-foreign joint venture enterprise

On February 16, 2022, Hongyang Investment and Vulcan Investment Company Limited (“**Vulcan**”), an Independent Third Party, entered into an equity transfer agreement, pursuant to which Vulcan agreed to acquire 1% of the equity interest in LX Technology from Hongyang Investment at a total consideration of RMB5,450,000 and was fully settled in cash on February 25, 2022 (the “**Vulcan Investment**”). Such consideration was determined based on the arm’s length negotiations between the parties with reference to valuation based on the net assets value of LX Technology as of December 31, 2021 conducted by an independent professional valuer and took into account the benefits Vulcan brought to the Group. The registration in respect of such transfer with the Shenzhen Administration for Market Regulation (深圳市市場監督管理局) was completed on February 25, 2022. See “Pre-[REDACTED] Investments” below for more information of Vulcan and the Vulcan Investment.

Acquisition of LX Technology by LX HK

On February 28, 2022, LX HK and the then shareholders of LX Technology, namely, Mr. Hu, Hongyang Investment, LX Investment and Vulcan entered into an equity transfer agreement, pursuant to which LX HK agreed to acquire the entire equity interests in LX Technology at a total consideration of approximately RMB61,196,000, which was made with reference to the registered capital of LX Technology after the Capital Reduction. The registration of alternation was completed on March 22, 2022 by the Shenzhen Administration for Market Regulation. Upon completion of the aforesaid equity transfer, LX Technology became wholly owned by LX HK.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Subscription of Shares of our Company by the Capital Reduction Parties and Share Transfer by Little Bear

In order to reflect the then shareholding structure of LX Technology immediately prior to the Capital Reduction and taking into account the Vulcan Investment, an aggregate of 48,599,654 Preferred Shares of various classes were allotted and issued to the relevant Capital Reduction Parties’ respective affiliates, 601,158 ordinary Shares allotted and issued to Hesheng BVI were redesignated as Series D-2 Preferred Shares and 507,992 ordinary Shares were transferred from Little Bear to Vulcan.

Upon completion of the aforesaid subscription, redesignation and share transfer as well as issuance of ordinary Shares to LX Brothers, our employee incentive platform, the shareholding structure of our Company became as follows:

No.	Name of Shareholder	Type of Shares	Number of Shares	Approximate Shareholding
1.	Bear Family ⁽¹⁾	Ordinary Shares	27,817,614	27.82%
2.	Little Bear ⁽¹⁾	Ordinary Shares	7,060,450	7.06%
3.	Charlie Bear	Ordinary Shares	5,329,380	5.32%
4.	LX Brothers ⁽¹⁾⁽²⁾	Ordinary Shares	6,622,445	6.62%
5.	Gold Bear	Ordinary Shares	3,461,307	3.46%
6.	Tigris Innovation Limited (“JD BVI”) ⁽³⁾⁽¹³⁾	Series A Preferred Shares	6,668,262	14.68%
		Series D-1 Preferred Shares	8,015,430	
7.	Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合夥)) (“Shanghai Yujun”) ⁽⁴⁾⁽¹²⁾⁽¹³⁾	Series B Preferred Shares (reflecting the interest held by SME Fund in LX Technology)	7,296,920	7.30%
		Series B Preferred Shares (reflecting the interest held by Zhongzhou Tiecheng in LX Technology)	3,367,809	3.37%
		Series D-2 Preferred Shares (reflecting the interest held by Hangzhou Mingcheng in LX Technology)	1,803,472	1.80%
		Series D-2 Preferred Shares (reflecting the interest held by HTI in LX Technology)	1,202,314	1.20%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

No.	Name of Shareholder	Type of Shares	Number of Shares	Approximate Shareholding
8.	Shanghai Tong Yun Xin Xi Ji Shu Company Limited (“ Dachen Chuangtong BVI ”) ⁽⁵⁾⁽¹²⁾⁽¹³⁾	Series A Preferred Shares	6,668,262	12.21%
		Series B Preferred Shares	3,929,111	
		Series D-1 Preferred Shares	1,603,086	
9.	Shanghai Jing Zhe Xin Xi Ji Shu Company Limited (“ Dachen Chuangjing BVI ”) ⁽⁶⁾⁽¹²⁾⁽¹³⁾	Series D-1 Preferred Shares	3,206,172	3.21%
10.	Image Frame Investment (HK) Limited 意像架構投資(香港)有限公司 (“ Tencent HK ”) ⁽⁷⁾⁽¹²⁾⁽¹³⁾	Series C Preferred Shares	2,084,011	2.08%
11.	Shanghai Yuanzhe Enterprise Management Partnership (LLP) (上海元輒企業管理合夥企業(有限合夥)) (“ Dachen Chuangyuan ODI ”) ⁽⁸⁾⁽¹²⁾⁽¹³⁾	Series A Preferred Shares	1,754,805	1.75%
12.	Ultimate Lenovo Limited (“ Lenovo BVI ”) ⁽⁹⁾⁽¹²⁾⁽¹³⁾	Series D-3 Preferred Shares	1,000,000	1.00%
13.	Hesheng BVI ⁽¹⁰⁾⁽¹³⁾	Series D-2 Preferred Shares	601,158	0.60%
14.	Vulcan ⁽¹¹⁾ Total	Ordinary Shares	507,992 100,000,000	0.50% 100.00%

Notes:

- (1) Immediately after completion of the Reorganization, Mr. Hu collectively controlled approximately 41.50% of the voting rights of our Company through Bear Family, Little Bear and LX Brothers.
- (2) LX Brothers was incorporated in the BVI with limited liability on October 29, 2021, which holds interest in our Company that mirrors the then equity interest in LX Technology indirectly held by Mr. Hu via LX Investment. LX Brothers is wholly-owned by Tricor Trust (Hong Kong) Limited, an Independent Third Party and being the trustee holding the shares on trust for the benefit of the participants of the LX Brothers Employee Incentive Plan. LX Brothers is administered by the committee duly authorized by our Board where Mr. Hu is one of the members and its voting rights are exercised by Mr. Hu.
- (3) JD BVI is an offshore affiliate entity designated by JD Jiangsu to subscribe for the Series A Preferred Shares and Series D-1 Preferred Shares in order to mirror the then equity interests held by JD Jiangsu in LX Technology.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (4) Shanghai Yujun was established as a limited liability partnership in the PRC by SME Fund, Zhongzhou Tiecheng, HTI and Hangzhou Mingcheng to subscribe for certain Series B Preferred Shares and Series D-2 Preferred Shares in order to mirror their respective equity interests in LX Technology. See “Pre-[REDACTED] Investments – Background information of the Pre-[REDACTED] Investors” for more information.
- (5) Dachen Chuangtong BVI is an offshore affiliate entity designated by Dachen Chuangtong to subscribe for the Series A Preferred Shares, the Series B Preferred Shares and the Series D-1 Preferred Shares in order to mirror the then equity interests held by Dachen Chuangtong in LX Technology.
- (6) Dachen Chuangjing BVI is an offshore affiliate entity designated by Dachen Chuangjing to subscribe for the Series D-1 Preferred Shares in order to mirror the then equity interests held by Dachen Chuangjing in LX Technology.
- (7) Tencent HK is an offshore affiliate entity designated by Tencent Shenzhen to subscribe for the Series C Preferred Shares in order to mirror the then equity interests held by Tencent Shenzhen in LX Technology.
- (8) Dachen Chuangyuan ODI is an affiliate entity designated by Dachen Chuangyuan to subscribe for the Series A Preferred Shares in order to mirror the then equity interests held by Dachen Chuangyuan in LX Technology.
- (9) Lenovo BVI is an offshore affiliate entity designated by Lenovo Beijing to subscribe for the Series D-3 Preferred Shares in order to mirror the then equity interests held by Lenovo Beijing in LX Technology.
- (10) 601,158 ordinary Shares allotted and issued to Hesheng BVI were redesignated as Series D-2 Preferred Shares on March 28, 2022.
- (11) In order to mirror Vulcan’s then equity interest in LX Technology, Little Bear transferred 507,992 ordinary Shares to Vulcan at a nominal value on March 23, 2022. In return of such transfer, Vulcan waived the consideration payable by LX HK for acquiring its 1% of the equity interest in LX Technology.
- (12) Each of Shanghai Yujun, Dachen Chuangtong BVI, Dachen Chuangjing BVI and Dachen Chuangyuan ODI (the “**ODI Investors**”) entered into warrant agreements with our Company on March 28, 2022 (the “**Warrant Agreements**”), pursuant to which our Company agreed to issue warrant certificates (the “**Warrant Certificates**”) to the ODI Investors to subscribe for the Preferred Shares to mirror the then interests held by their affiliates in LX Technology at considerations equivalent in amount to the respective considerations paid when their affiliates subscribed for the registered capital of LX Technology. The Warrant Certificates were fully exercised for the Preferred Shares on April 6, 2022. As of the Latest Practicable Date, there was no outstanding warrant under the Warrant Agreements. The Warrant Certificates were issued and exercised for the purpose of facilitating the Reorganization and hence did not create any new pre-[REDACTED] arrangement as contemplated under HKEX Guidance Letter HKEX-GL29-12 and HKEX Guidance Letter HKEX-GL43-12.
- (13) On March 28, 2022, our Company allotted and issued a total of 17,767,703 Preferred Shares to JD BVI, Tencent HK and Lenovo BVI. On April 6, 2022, our Company allotted and issued a total of 30,831,951 Preferred Shares to the ODI Investors upon their exercise of the Warrant Certificates. The considerations for the subscription of Preferred Shares were fully settled in cash by all Pre-[REDACTED] Investors by June 16, 2022. The aforesaid considerations are equivalent in amount to the respective considerations paid by LX Technology when it repurchased the respective registered capital from the relevant Capital Reduction Parties.

Each of our PRC Legal Advisor and Cayman legal advisor has confirmed that all approvals and filings in relation to the transactions and the procedures involved as described in this section have been carried out in accordance with the laws and regulations of the PRC and the Cayman Islands, respectively, and that the transactions in the PRC and the Cayman Islands as described in this section have been properly and legally completed in accordance with the laws and regulations of the PRC and the Cayman Islands, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

Save as disclosed above, we had not conducted any acquisition, disposal or merger that we considered to be material to us during the Track Record Period and up to the Latest Practicable Date.

EMPLOYEE INCENTIVE PLANS

LX Brothers and Beauty Bear are incorporated in the BVI as our employee incentive platforms.

LX Brothers Employee Incentive Plan

In recognition of the contributions of our employees and to incentivize them to further promote our development, the LX Brothers Employee Incentive Plan was adopted on March 23, 2022. On March 25, 2022, 6,622,445 ordinary Shares was allotted and issued to LX Brothers, which is wholly owned by Tricor Trust (Hong Kong) Limited (“**Tricor Trust**”), an Independent Third Party and the trustee holding the shares on trust for the benefit of the participants of the LX Brothers Employee Incentive Plan. LX Brothers is administered by the committee duly authorized by our Board where Mr. Hu is a member and its voting rights are exercised by Mr. Hu. For details and principal terms of the LX Brothers Employee Incentive Plan, see “Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan” in Appendix IV to this document.

Beauty Bear Employee Incentive Plan

On March 25, 2022, our Company issued and allotted 11,111,111 ordinary Shares to Beauty Bear, the BVI holding company incorporated for the purpose of the Beauty Bear Employee Incentive Plan. Beauty Bear is wholly owned by Teeroy Limited (“**Teeroy Trust**”), an Independent Third Party and the trustee holding the shares on trust for the benefit of the participants of the Beauty Bear Employee Incentive Plan. Beauty Bear is administered by the committee duly authorized by our Board where Mr. Hu is a member and its voting rights are exercised by Mr. Hu. For details and principal terms of the Beauty Bear Employee Incentive Plan, see “Statutory and General Information – D. Employee Incentive Plans – 2. Beauty Bear Employee Incentive Plan” in Appendix IV to this document.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRE-[REDACTED] INVESTMENTS

The Pre-[REDACTED] Investments consist of the Series A Investment, Series B Investment, Series C Investment, Series D-1 Investment, Series D-2 Investment, Series D-3 Investment and Vulcan Investment, which were conducted at the level of LX Technology. The following table summarizes the principal terms of the Pre-[REDACTED] Investments:

	Series A Investment	Series B Investment	Series C Investment	Series D-1 Investment	Series D-2 Investment	Series D-3 Investment	Vulcan Investment
Date of agreement	May 11, 2018	April 16, 2019	November 26, 2019	June 28, 2020	January 16, 2021	June 28, 2021	February 16, 2022
Total consideration paid	RMB86,000,000	RMB130,000,000	RMB20,500,000	RMB160,000,000	RMB60,000,000	RMB16,634,583	RMB5,450,000
Date of full settlement of consideration	February 1, 2019	June 10, 2019	December 5, 2019	July 29, 2020	January 28, 2021	July 22, 2021	February 25, 2022
Cost per Share paid ⁽¹⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Discount or premium to the mid-point of the indicative [REDACTED] range ⁽²⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Basis of determination of the consideration paid	The consideration for the Pre-[REDACTED] Investments was determined based on arm’s length negotiations between such Pre-[REDACTED] Investors and LX Technology and/or Hongyang Investment after taking into account the following factors, including: (i) the status of the Group’s business at such particular point in time, (ii) the development and prospect of the DLM industry in the PRC; (iii) the development potential of the Group compared with its peers; (iv) the then net assets value of LX Technology conducted by an independent professional valuer; (v) the equity interest that would be held by such Pre-[REDACTED] Investor upon completion of the investment; (vi) the timing of the investment; (vii) the investment risks assumed by the Pre-[REDACTED] Investors in investing in an unlisted company which are considered significantly different from those investors participating at the stage of the [REDACTED], including, among others, the time gap between the completion of the Pre-[REDACTED] Investments and that of the [REDACTED], the uncertainties associated with the [REDACTED] vetting process, the lack of liquidity and open market for trading of shares prior to the completion of the [REDACTED] and the [REDACTED]; and (viii) the business resources, strategic cooperation opportunities and benefits that the Pre-[REDACTED] Investors could bring to the Group.						
Use of proceeds from the Pre-[REDACTED] Investments	We utilized the proceeds from the Pre-[REDACTED] Investments for the principal business of our Group, including but not limited to the growth and expansion of our Group’s business, research and development, procurement of IT equipment, marketing and general working capital purposes. As of the Latest Practicable Date, approximately 99% of the net proceeds from the Pre-[REDACTED] Investments was utilized.						
Lock-up	The Shares held by each Pre-[REDACTED] Investor will be subject to lock-up for a period of six months commencing from the [REDACTED].						
Strategic benefits of the Pre-[REDACTED] Investments	Our Directors are of the view that (i) our Group would benefit from the additional capital provided by the Pre-[REDACTED] Investors and their knowledge and experience; and (ii) the Pre-[REDACTED] Investments demonstrate the Pre-[REDACTED] Investors’ confidence in the operation and development of our Group and serve as an endorsement for our Group’s performance, strengths and prospects. Moreover, our Pre-[REDACTED] Investors include affiliates of famous TMT companies, namely JD, Tencent and Lenovo, being our strategic Shareholders and business partners, who can share their insight on business strategies, help broaden our sales channels and supplement our supply chain resources; along with institutional investors who can provide professional advice on our Group’s corporate governance, financial reporting and internal control.						
Shareholding in our Company immediately upon completion of the [REDACTED]	See “– Shareholding and Corporate Structure” for the shareholding in our Company held by the Pre-[REDACTED] Investors immediately after completion of the [REDACTED].						
Special rights	None of the Pre-[REDACTED] Investors is entitled to any special right under the Pre-[REDACTED] Investments which would survive after the [REDACTED].						

Notes:

- (1) The cost per Share was calculated based on (a) the investment amount paid by the relevant Pre-[REDACTED] Investors for subscribing for the registered capital of and acquiring certain equity interest in LX Technology; and (b) the number of Preferred Shares and/or ordinary Shares (as the case may be) they received pursuant to the Reorganization and upon completion of the Capitalization Issue.
- (2) The discount or the premium is calculated based on the assumption that the [REDACTED] is HK\$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share. D means the relevant discount to the mid-point of the indicative [REDACTED] range and P means the premium to the aforesaid range.

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- (3) The consideration for the Vulcan Investment was determined based on the arm’s length negotiations between Hongyang Investment and Vulcan with reference to the net assets value of LX Technology as of December 31, 2021 conducted by an independent professional valuer and took into account the benefits Vulcan brought to the Group. Upon completion of the Reorganization, Vulcan only holds ordinary Shares without being entitled to any special rights, which are different from the Preferred Shares held by other Pre-[REDACTED] Investors with certain special rights (including, among others, liquidation preference and preemptive right) that will be terminated upon the [REDACTED]. As such, there is an increase in the discount to the [REDACTED] of Vulcan Investment in February 2022. See “– Background information of the Pre-[REDACTED] Investors” below for more information of Vulcan and the Vulcan Investment.

Our PRC Legal Advisor has confirmed that the Pre-[REDACTED] Investments in LX Technology were conducted in compliance with all applicable PRC laws and regulations.

Background information of the Pre-[REDACTED] Investors

Save for JD BVI, Dachen BVI and ODI Entities (as defined below) and Shanghai Yujun, each of the Pre-[REDACTED] Investors and its ultimate beneficial owner(s) is an Independent Third Party other than its investments made in us. The background information of the Pre-[REDACTED] Investors is set out below:

JD Entities

JD Jiangsu is a limited liability company established in the PRC on August 4, 2015, which is principally engaged in investment management. As of the Latest Practicable Date, it was owned as to 45% by Mr. Richard Qiangdong Liu (劉強東), 30% by Ms. Li Yayun (李婭雲) and 25% by Ms. Zhang Fang (張雱).

JD BVI is an investment holding company incorporated in the BVI on September 22, 2021, which is wholly-owned by JD.com Investment Limited.

Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised, JD BVI will hold [REDACTED]% of our enlarged issued share capital and is a substantial Shareholder. As such, JD BVI and its associates are connected persons of our Company. See “Connected Transactions” section of this document for the continuing connected transactions between our Group and JD entities.

Both JD Jiangsu and JD BVI are affiliates of JD.com, Inc., the shares of which are listed on the Stock Exchange (stock code: 9618) and the American depositary shares of which are listed on NASDAQ (ticker symbol: JD). JD is a leading supply chain-based technology and service provider. We acquainted with JD Jiangsu in our ordinary course of business. For more information regarding our relationship with JD, see “Business” section of this document.

Tencent Entities

Tencent Shenzhen is a limited liability company established in the PRC, which is principally engaged in venture capital investment. Tencent Shenzhen is a wholly-owned subsidiary of Shenzhen Tencent Industrial Investment Fund Co., Ltd. (深圳市騰訊產業投資基

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金有限公司), which is an affiliate of Tencent Holdings Limited 騰訊控股有限公司 (“**Tencent**”), a company listed on the Hong Kong Stock Exchange (stock code: 00700). Tencent is a leading provider of Internet value-added services in China, including communications and social, digital content, advertising, fintech and cloud services. We acquainted with Tencent Shenzhen in our ordinary course of business. For more information regarding our relationship with Tencent, see “Business” section of this document.

Tencent HK is a limited liability company incorporated under the laws of Hong Kong, which is a wholly-owned subsidiary of Tencent.

Lenovo Entities

Lenovo Beijing is a limited liability company established in the PRC on December 24, 1992, which is principally engaged in manufacturing and distribution of IT products and provision of IT services. It is a wholly-owned subsidiary of Lenovo Group Limited 聯想集團有限公司 (“**Lenovo**”), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 992). Lenovo grows its market leading share in several technology segments and takes advantage of the growing trend of digital and service-led transformation. We acquainted with Lenovo Beijing in our ordinary course of business. For more information regarding our relationship with Lenovo, see “Business” section of this document.

Lenovo BVI is an investment holding company incorporated in the BVI on August 17, 2001, which is wholly-owned by Lenovo Holdings (BVI) Limited.

Both Lenovo Beijing and Lenovo BVI are wholly-owned subsidiaries of Lenovo.

Dachen Entities

Dachen Chuangtong

Dachen Chuangtong is a limited partnership established in the PRC on January 9, 2018, which is principally engaged in equity investment and managed by Shenzhen Dachen Caizhi Venture Capital Investment Management Co., Ltd. (深圳市達晨財智創業投資管理有限公司) (“**Dachen Management**”) as its sole general partner. Based on publicly available information (including National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) (“**NECIPS**”), as of the Latest Practicable Date, Dachen Chuangtong had 44 limited partners, the largest of which was Zhuhai Junfei Equity Investment Center (LLP) (珠海君斐股權投資中心(有限合夥)) (“**Zhuhai Junfei**”) holding approximately 20.43% partnership interest and none of its ultimate beneficial owners was interested in more than 10% partnership interest of Zhuhai Junfei. Based on the information from NECIPS, as of the Latest Practicable Date, Shenzhen Guidance Fund Investment, Co., Ltd. (深圳市引導基金投資有限公司) held approximately 11.90% partnership interest in Dachen Chuangtong and was ultimately owned by Shenzhen Finance Bureau (深圳市財政局). Save as disclosed herein, to the best of our knowledge having made all reasonable enquiries, none of the ultimate beneficial owners of

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Dachen Chuangtong is interested in more than 10% partnership interest of Dachen Chuangtong. To the best of our knowledge having made all reasonable enquiries, the limited partners of Dachen Chuangtong are independent from each other.

Dachen Management is principally engaged in venture capital investments focusing on TMT, intelligent manufacturing, consumer, culture media and healthcare industries. It has the asset under management (“AUM”) of approximate RMB30 billion. Our employee responsible for the Group’s financing approached Dachen Management directly for its investments in LX Technology. As of the Latest Practicable Date, Dachen Management was owned as to 35% by Shenzhen Dachen Venture Capital Investment Co., Ltd. (深圳市達晨創業投資有限公司) (“**Shenzhen Dachen VC**”) and 20% by Hunan TV and Broadcast Intermediary Co., Ltd. (湖南電廣傳媒股份有限公司) (“**Hunan TVBI**”), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000917), which in turn held 75% of the equity interest in Shenzhen Dachen VC. As of the Latest Practicable Date, Dachen Management was ultimately controlled by Hunan TVBI. Save for Shenzhen Dachen VC and Hunan TVBI, no other shareholders held 30% or more equity interest in Dachen Management.

Dachen Chuangtong BVI is an investment holding company incorporated in BVI on September 10, 2019, which is wholly-owned by Shanghai Tongyun Information Technology Partnership (LLP) (上海通韞信息技術合夥企業(有限合夥)) (“**Shanghai Tongyun**”). Shanghai Tongyun is managed by Dachen Management as its sole general partner and Dachen Chuangtong is its limited partner.

Dachen Chuangyuan

Dachen Chuangyuan is a limited partnership established in the PRC on October 16, 2017, which is principally engaged in equity investment and management by Dachen Management as its sole general partner. Based on the information from NECIPS, as of the Latest Practicable Date, Dachen Chuangyuan had 32 limited partners and none of the ultimate beneficial owners of Dachen Chuangyuan was interested in more than 10% partnership interest of Dachen Chuangyuan. To the best of our knowledge having made all reasonable enquiries, the limited partners of Dachen Chuangyuan are independent from each other.

Dachen Chuangyuan ODI is a limited partnership established in the PRC on November 18, 2021, which is managed by Dachen Management as its sole general partner and Dachen Chuangyuan is its limited partner.

Dachen Chuangjing

Dachen Chuangjing is a limited partnership established in the PRC on January 12, 2018, which is principally engaged in equity investment and management by Dachen Management as its sole general partner. Based on publicly available information (including NECIPS), as of the Latest Practicable Date, Dachen Chuangjing had 11 limited partners, among which Shanghai Focus Media Hongyi Information Technology Co., Ltd. (上海分眾鴻意信息技術有限公司) (“**Focus Media**”) held 49.80% partnership interest and Dongguan Income Doubling Program

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M&A Fund Partnership (LLP) (東莞市倍增計劃產業併購母基金合夥企業(有限合夥)) (“**Dongguan IDP**”) held 30% partnership interest. As of the Latest Practicable Date, (i) Focus Media was ultimately controlled by Focus Media Information Technology Co., Ltd. (分眾傳媒信息技術股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002027); and (ii) Dongguan IDP was owned as to approximately 66.66% by Dongguan Mintou Investment Holding Group Co., Ltd. (東莞民投投資控股集團有限公司) (“**Dongguan Mintou**”) having 23 shareholders, none of which held more than 10% equity interest in Dongguan Mintou. Save as disclosed herein, to the best of our knowledge having made all reasonable enquiries, none of the ultimate beneficial owners of Dachen Chuangjing is interested in more than 10% partnership interest of Dachen Chuangjing. To the best of our knowledge having made all reasonable enquiries, the limited partners of Dachen Chuangjing are independent from each other.

Dachen Chuangjing BVI is an investment holding company incorporated in the BVI on September 11, 2019, which is wholly-owned by Shanghai Jingzhe Information Technology Partnership (LLP) (上海景輒信息技術合夥企業(有限合夥)) (“**Shanghai Jingzhe**”). Shanghai Jingzhe is managed by Dachen Management as its sole general partner and Dachen Chuangjing is its limited partner.

As Dachen Management through Dachen Chuangtong BVI, Dachen Chuangjing BVI and Dachen Chuangyuan ODI will hold in aggregate approximately [REDACTED]% of our enlarged issued share capital upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised) and is a substantial Shareholder, each of Dachen Management, Dachen Chuangtong BVI, Dachen Chuangjing BVI and Dachen Chuangyuan ODI (collectively, the “**Dachen BVI and ODI Entities**”) is a connected person of our Company.

SME Fund

SME Fund is a limited partnership established in the PRC on December 21, 2016, which is principally engaged in equity investment in small and medium-sized enterprises and managed by Shenzhen Oriental Fortune SME Development Fund Equity Investment Management Co., Ltd. (深圳市富海中小企業發展基金股權投資管理有限公司) (“**Shenzhen OFC**”) as its sole general partner. Shenzhen OFC is owned as to 51% by Shenzhen Oriental Fortune Investment Management Co., Ltd. (深圳市東方富海投資管理股份有限公司) (“**OFC**”), which is ultimately beneficially owned by Mr. Chen Wei (陳瑋). OFC is one of the leading venture capital investment firms in the PRC. OFC and its subsidiaries are managing assets with a totaling of approximately RMB28 billion covering telecommunication, TMT, green technology, new material & advanced manufacturing technology, healthcare and entertainment & consumption industries. Our employee responsible for the Group’s financing approached OFC directly for the investment in LX Technology. Based on the information from NECIPS, as of the Latest Practicable Date, SME Fund had [10] limited partners, among which China SME Development Fund Co., Ltd. (國家中小企業發展基金有限公司) (“**China SME**”) held approximately 24.44% partnership interest, Shenzhen GF held approximately 24.33% partnership interest and Xinyu Huabang Investment Management Center (LLP) (新余市華邦投資管理中心(有限合夥)) (“**Huabang**”) held approximately 12.44% partnership interest. Based

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on the information from NECIPS, as of the Latest Practicable Date, (i) China SME was ultimately owned by MOF; and (ii) the largest limited partner of Huabang was Guangdong Baoxing Assets Management Co., Ltd. (廣東寶新資產管理有限公司), which was ultimately controlled by Mr. Ye Huaneng (葉華能). Save as disclosed herein, to the best of our knowledge having made all reasonable enquiries, none of the ultimate beneficial owners of SME Fund is interested in more than 10% partnership interest of SME Fund. To the best of our knowledge having made all reasonable enquiries, the limited partners of SME Fund are independent from each other.

Zhongzhou Tiecheng

Zhongzhou Tiecheng is a limited partnership established in the PRC on June 19, 2018, which is principally engaged in venture capital investment and managed by Qianhai Great Wall Fund Management (Shenzhen) Co., Ltd. (前海長城基金管理(深圳)有限公司) (“**Great Wall Fund**”) as its sole general partner. Great Wall Fund is a limited liability company established in the PRC in July 2015, which is principally engaged in private equity investments focusing on semiconductor and biotech industries and registered with Asset Management Association of China (中國證券投資基金協會) (“**AMAC**”) (Registration No. P1023212). Our employee responsible for the Group’s financing approached Great Wall Fund directly for the investment in LX Technology. As of the Latest Practicable Date, Great Wall Fund was owned as to approximately 39.06% by Mr. Chang Jinyong (常進勇) and 30.06% by Mr. Weng Xianding (翁先定) and the remaining equity interests were held by other shareholders. Based on the information from NECIPS, as of the Latest Practicable Date, Zhongzhou Tiecheng had 7 limited partners, among which Shenzhen GF held approximately 24.22% partnership interest, Infotech National Emerging Industry Venture Investment Guidance Fund (LLP) (盈富泰克國家新興產業創業投資引導基金(有限合夥)) (“**Infotech**”) held approximately 23.26% partnership interest, Shenzhen Futian Guidance Fund Investment Co., Ltd. (深圳市福田引導基金投資有限公司) (“**Futian GF**”) held approximately 23.26% partnership interest and Shenzhen New Industrial Start-up Investment Co., Ltd. (深圳市新產業創業投資有限公司) (“**Shenzhen NIS**”) held approximately 11.63% partnership interest. Based on the information from NECIPS, as of the Latest Practicable Date, (i) Infotech had 7 limited partners, the largest of which was MOF holding approximately 40.18% partnership interest; (ii) Futian GF was ultimately owned by Shenzhen Futian Finance Bureau (深圳市福田區財政局) and (iii) Shenzhen NIS was ultimately controlled by Mr. Wen Xianding (翁先定). Save as disclosed herein, to the best of our knowledge having made all reasonable enquiries, none of the ultimate beneficial owners of Zhongzhou Tiecheng is interested in more than 10% partnership interest of Zhongzhou Tiecheng. To the best of our knowledge having made all reasonable enquiries, the limited partners of Zhongzhou Tiecheng are independent from each other.

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HTI

HTI is a limited liability company established in the PRC on June 29, 2010, which is principally engaged in venture capital investment. It is a wholly-owned subsidiary of Shenzhen High-tech Investment Group Co., Ltd. (深圳市高新投集團有限公司) (“**HTI Group**”), which is ultimately controlled by State-owned Assets Supervision and Administration Commission of the People’s Government of Shenzhen Municipal (深圳市人民政府國有資產監督管理委員會). Since the establishment in December 1994, HTI Group has been focusing on providing diverse financial services including financing guarantee, venture capital and commercial factoring to small and medium size technology companies. We acquainted with HTI in our ordinary course of business.

Hangzhou Mingcheng

Hangzhou Mingcheng is a limited partnership established in the PRC on September 30, 2019, which is principally engaged in equity investment and managed by Mingcheng Zhihui (Hangzhou) Equity Investment Co., Ltd. (明誠致慧(杭州)股權投資有限公司) (“**Mingcheng Zhihui**”) as its sole general partner. Mingcheng Zhihui is a limited liability company established in the PRC on March 20, 2019, which is principally engaged in equity investment. It is a private equity fund manager registered with AMAC (Registration No. P1069966) and has the AUM of more than RMB1 billion. As of the Latest Practicable Date, Mingcheng Zhihui was ultimately controlled by Mr. Hu Huayong (胡華勇). Based on publicly available information (including NECIPS), as of the Latest Practicable Date, Hangzhou Mingcheng had [6] limited partners, among which Zhejiang Rongsheng Holding Group Co., Ltd. (浙江榮盛控股集團有限公司) ultimately controlled by Mr. Li Shuirong (李水榮) held approximately 47.17% partnership interest and each of Zhengbang Group Co., Ltd. (正邦集團有限公司) ultimately controlled by Mr. Sun Yinsun (孫印孫) and Shenzhen Qianhai Nanshan Finance Development Co., Ltd. (深圳前海南山金融發展有限公司) ultimately controlled by Shandong Yantai Longkou Dongjiang Nanshan Village Committee (山東煙台龍口市東江街道南山村村民委員會) held approximately 18.87% partnership interest. Save as disclosed herein, to the best of our knowledge having made all reasonable enquiries, none of the limited partners of Hangzhou Mingcheng is interested in more than 10% partnership interest of Hangzhou Mingcheng. To the best of our knowledge having made all reasonable enquiries, the limited partners of Hangzhou Mingcheng are independent from each other. Our employee responsible for the Group’s financing approached Hangzhou Mingcheng directly for the investment in LX Technology.

Shanghai Yujun

For the purpose of the ODI application, SME Fund, Zhongzhou Tiecheng, Hangzhou Mingcheng and HTI established Shanghai Yujun in the PRC on December 27, 2021 to subscribe for certain Series B Preferred Shares and Series D-2 Preferred Shares in order to mirror their respective equity interests in LX Technology.

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Shanghai Yujun is managed by Shenzhen OFC. As of the Latest Practicable Date, based on the publicly available information, SME Fund, Zhongzhou Tiecheng, Hangzhou Mingcheng and HTI respectively held 44.67%, 20.62%, 20.62% and 13.75% interest in Shanghai Yujun as limited partners.

Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shanghai Yujun will hold [REDACTED]% of our enlarged issued share capital and is a substantial Shareholder.

Hesheng Entities

Hesheng Shanghai is a limited partnership established in the PRC on December 7, 2020, which is principally engaged in equity investment and managed by Ms. Huang Litai (黃麗泰) as its sole general partner and holding 30% interest in Heshang Shanghai. Ms. Sun Jing (孫靜) and Ms. Shu Man (舒曼) hold 40% and 30% interest in Heshang Shanghai as its limited partners, respectively. Ms. Huang is the founder of LAD Group (利安達集團), which is principally engaged in the businesses of apparel, urban energy, hotel services and financial investment; Ms. Sun is the key founder of Hesheng Shanghai, who served as a director of INTCO Medical (英科醫療科技股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300677); and Ms. Shu worked as general manager for several PRC companies. Hesheng BVI is a company incorporated by the ultimate beneficial owners of Hesheng Shanghai in the BVI with limited liability on November 9, 2021, which is owned as to 40% by Ms. Sun, 30% by Ms. Shu and 30% by Ms. Huang. To the best of our knowledge having made all reasonable enquiries, the limited partners of Hesheng Shanghai are independent from each other. Our employee responsible for the Group’s financing approached Hesheng Shanghai directly for the investment in LX Technology.

Vulcan

Vulcan is an investment holding company incorporated in HK on January 19, 2022, which is wholly-owned by Ms. Fung Wai 馮卉 (“**Ms. Fung**”). Ms. Fung used to work at multinational corporations, where she accumulated financial and investment experience. Ms. Fung has extensive connections with overseas commercial banks. Before her investment in our Group, she successfully connected us with a licensed overseas bank, which provided facilities in relation to the Reorganization and is also one of our principal banks granting us credit facilities. Being confident in the prospect of our business, Ms. Fung, through Vulcan, invested in our Company using her personal resources. Our employee responsible for the Group’s financing approached Ms. Fung for her investment in LX Technology.

Public Float

Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shanghai Yujun, JD BVI and Dachen BVI and ODI Entities will hold [REDACTED]%, [REDACTED]% and [REDACTED]% of our enlarged issued share capital, respectively, while the remaining Pre-[REDACTED] Investors will each hold less than 10% of our enlarged

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issued share capital. Therefore, except for Shanghai Yujun, JD BVI and Dachen BVI and ODI Entities, the Shares held by the remaining Pre-[REDACTED] Investors will be counted towards the public float of our Company according to Rule 8.08 of the Listing Rules.

Compliance with Interim Guidance and Guidance Letters

Our Directors are of the view that taking into account the facts that (i) the Preferred Shares and/or the ordinary Shares were allotted to, subscribed by or transferred to the Pre-[REDACTED] Investors to mirror their respective then equity interests in LX Technology; (ii) the considerations of the Pre-[REDACTED] Investments were fully settled more than 28 clear days before the date of submission of the [REDACTED] application; (iii) none of the Pre-[REDACTED] Investors is entitled to any special rights under the Pre-[REDACTED] Investments which would survive after the [REDACTED]; and (iv) the conversion of the Preferred Shares to the ordinary Shares would be based on the arrangements under the Pre-[REDACTED] Investments which would take place automatically upon the [REDACTED] without any conversion price mechanism contrary to the Guidance on Pre-[REDACTED] Investments in Convertible Instruments (HKEX Guidance Letter HKEX-GL44-12), the Pre-[REDACTED] Investments are in compliance with the Interim Guidance on Pre-[REDACTED] Investments (HKEX Guidance Letter HKEX-GL29-12), the Guidance on Pre-[REDACTED] Investments (HKEX Guidance Letter HKEX-GL43-12) and the Guidance on Pre-[REDACTED] Investments in Convertible Instruments (HKEX Guidance Letter HKEX-GL44-12). On the above basis, the Sole Sponsor concurs with our Directors for the compliance of the Pre-[REDACTED] Investments with the aforementioned guidance published by the Stock Exchange.

CAPITALIZATION ISSUE AND CONVERSION OF PREFERRED SHARES

Pursuant to the resolutions passed by our Shareholders on September 27, 2022, subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the [REDACTED] pursuant to the [REDACTED], our Directors shall be authorized to allot and issue a total of [REDACTED] Shares credited as fully paid at par value to the Shareholders of the register of members of our Company at the close of business on the date immediately preceding the date on which the [REDACTED] becomes unconditional or as it/they may direct in proportion to their respective shareholdings in our Company (as nearly as possible without fractions) by way of capitalization of the sum of [HK\$[REDACTED]] standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued Shares, in each case to be effective on the [REDACTED]. Each of the Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series D-1 Preferred Shares, Series D-2 Preferred Shares and Series D-3 Preferred Shares will be converted into Shares on one-to-one basis by way of redesignation to Shares upon [REDACTED].

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The table below is a summary of the capitalization of our Company.

No.	Shareholders	Ordinary Shares	Series A	Series B	Series C	Series D-1	Series D-2	Series D-3	Ownership percentage as of the date of this document ⁽¹⁾	Number of Ordinary Shares held upon [REDACTED] ⁽²⁾	Ownership percentage as of the [REDACTED]
			Preferred Shares	Preferred Shares	Preferred Shares	Preferred Shares	Preferred Shares	Preferred Shares	Preferred Shares	[REDACTED]	[REDACTED]
1.	Bear Family ⁽³⁾	27,817,614	-	-	-	-	-	-	25.04%	[REDACTED]	[REDACTED]
2.	Beauty Bear ⁽³⁾	11,111,111	-	-	-	-	-	-	10.00%	[REDACTED]	[REDACTED]
3.	Little Bear ⁽³⁾	7,060,450	-	-	-	-	-	-	6.35%	[REDACTED]	[REDACTED]
4.	LX Brothers ⁽³⁾	6,622,445	-	-	-	-	-	-	5.96%	[REDACTED]	[REDACTED]
5.	Charlie Bear	5,329,380	-	-	-	-	-	-	4.80%	[REDACTED]	[REDACTED]
6.	Gold Bear	3,461,307	-	-	-	-	-	-	3.12%	[REDACTED]	[REDACTED]
7.	JD BVI	-	6,668,262	-	-	8,015,430	-	-	13.22%	[REDACTED]	[REDACTED]
8.	Shanghai Yujun	-	-	10,664,729	-	-	3,005,786	-	12.30%	[REDACTED]	[REDACTED]
9.	Dachen Chuangtong BVI	-	6,668,262	3,929,111	-	1,603,086	-	-	10.98%	[REDACTED]	[REDACTED]
10.	Dachen Chuangjing BVI	-	-	-	-	3,206,172	-	-	2.89%	[REDACTED]	[REDACTED]
11.	Tencent HK	-	-	-	2,084,011	-	-	-	1.88%	[REDACTED]	[REDACTED]
12.	Dachen Chuangyuan ODI	-	1,754,805	-	-	-	-	-	1.58%	[REDACTED]	[REDACTED]
13.	Lenovo BVI	-	-	-	-	-	-	1,000,000	0.90%	[REDACTED]	[REDACTED]
14.	Hesheng BVI	-	-	-	-	-	601,158	-	0.54%	[REDACTED]	[REDACTED]
15.	Vulcan	507,992	-	-	-	-	-	-	0.46%	[REDACTED]	[REDACTED]
	Total:	61,910,299	15,091,329	14,593,840	2,084,011	12,824,688	3,606,944	1,000,000	100.00%	[REDACTED]	[REDACTED]

Notes:

- (1) Based on the assumption that each Preferred Share will be converted into one ordinary Share upon the [REDACTED] becoming unconditional and all Preferred Shares will automatically be converted into the same number of ordinary Shares upon [REDACTED].
- (2) After 1:1 conversion of the Preferred Shares into ordinary Shares of our Company and the completion of the Capitalization Issue, without taking into account the Shares to be allotted and issued under the [REDACTED] and the [REDACTED].
- (3) Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Hu, through Bear Family, Little Bear, LX Brothers and Beauty Bear, will be able to exercise approximately [REDACTED]% of the voting rights of our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRC LEGAL COMPLIANCE

SAFE Registration

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“**Circular 37**”), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties.

As confirmed by our PRC Legal Advisor, Mr. Hu, Mr. Zhang, Mr. Hua, Mr. Cao, Mr. He, Mr. Tang, Ms. Huang Litai (黃麗泰), Ms. Shu Man (舒曼), Ms. Sun Jing (孫靜), who are ultimate beneficial owners of our Shares and PRC residents, had completed the registration under Circular 37.

M&A Rules

Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise (the “**Regulated Activities**”).

As advised by our PRC Legal Advisor, LX Technology became a sino-foreign joint venture enterprise after the Vulcan Investment, LX Technology completed the relevant registration pursuant to the M&A Rules with the relevant authorities. Given that LX Technology was a sino-foreign joint venture enterprise, the acquisition of 100% equity interests in LX Technology by LX HK is not subject to the M&A Rules and does not require approval from MOFCOM under the M&A Rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

ODI Registration Procedures

Pursuant to the Administrative Measures for the Outbound Investment of Enterprises (企業境外投資管理辦法), promulgated by NDRC and which became effective on March 1, 2018, to make outbound investment, any investor shall go through the formalities to have a proposed overseas investment project approved or filed on the record, report relevant information, and cooperate in supervision and inspection, and the authority in charge of examining and approving such projects shall be NDRC and its provincial branches. Pursuant to the Administrative Measures for Outbound Investment (《境外投資管理辦法》), promulgated by MOFCOM and which became effective on October 6, 2014, “outbound investment” refers to the activities of possessing non-financial enterprises or acquiring the ownership of, the control over, the operation and management right of, and other rights of and interests in, the existing non-financial enterprises outbound through consolidation, merger and acquisition, or otherwise conducted by enterprises that are established in China in accordance with the law, the Ministry of Commerce and the provincial departments in charge of commerce shall conduct archive filing and verification management according to different circumstances of outbound investment of an enterprise. Pursuant to the Circular of SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated by the State Administration of Foreign Exchange and which became effective on June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment shall be directly reviewed and handled by banks in accordance with the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies and the Guidelines for Direct Investment-related Foreign Exchange Business, and SAFE and its branches shall perform indirect regulation over the direct investment-related foreign exchange registration via banks.

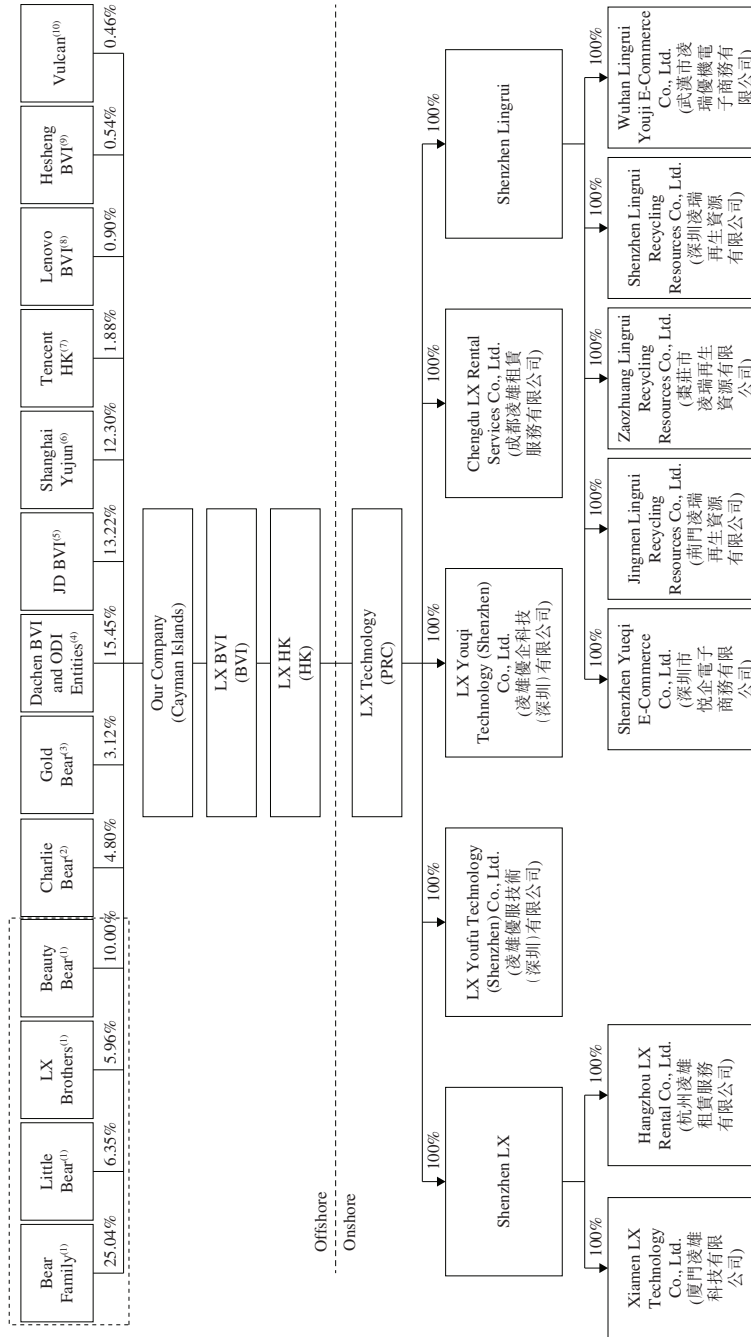
As advised by our PRC Legal Adviser, Shanghai Yujun, Shanghai Tongyun, Shanghai Jingzhe, Dachen Chuangyuan ODI completed the ODI registration procedures with respective provincial development and reform commission, provincial departments in charge of commerce and the bank.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SHAREHOLDING AND CORPORATE STRUCTURE

Corporate Structure Immediately Prior to the [REDACTED]

The following chart sets forth the corporate and shareholding structure of our Group after completion of the Reorganization and immediately prior to the completion of the [REDACTED]:



HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) Bear Family, a company incorporated in the BVI on October 29, 2021, is wholly-owned by Mr. Hu.

Little Bear, a company incorporated in the BVI on November 5, 2021, is owned as to 8.78% by Mr. Hu, 51.56% by Mr. He, 24.91% by Mr. Tang and 14.75% by Mr. Cao, among whom Mr. Hu has the voting rights and the other shareholders have the non-voting rights.

LX Brothers is a company incorporated in the BVI on October 29, 2021 as the Company’s employee incentive platform for the LX Brothers Employee Incentive Plan. LX Brothers is wholly-owned by Tricor Trust. LX Brothers is administered by the committee duly authorized by our Board where Mr. Hu is a member. The voting rights of LX Brothers are exercised by Mr. Hu.

Beauty Bear is a company incorporated in the BVI on October 29, 2021 as the Company’s employee incentive platform for the Beauty Bear Employee Incentive Plan. Beauty Bear is wholly-owned by Teeroy Trust. Beauty Bear is administered by the committee duly authorized by our Board where Mr. Hu is a member. The voting rights of Beauty Bear are exercised by Mr. Hu.

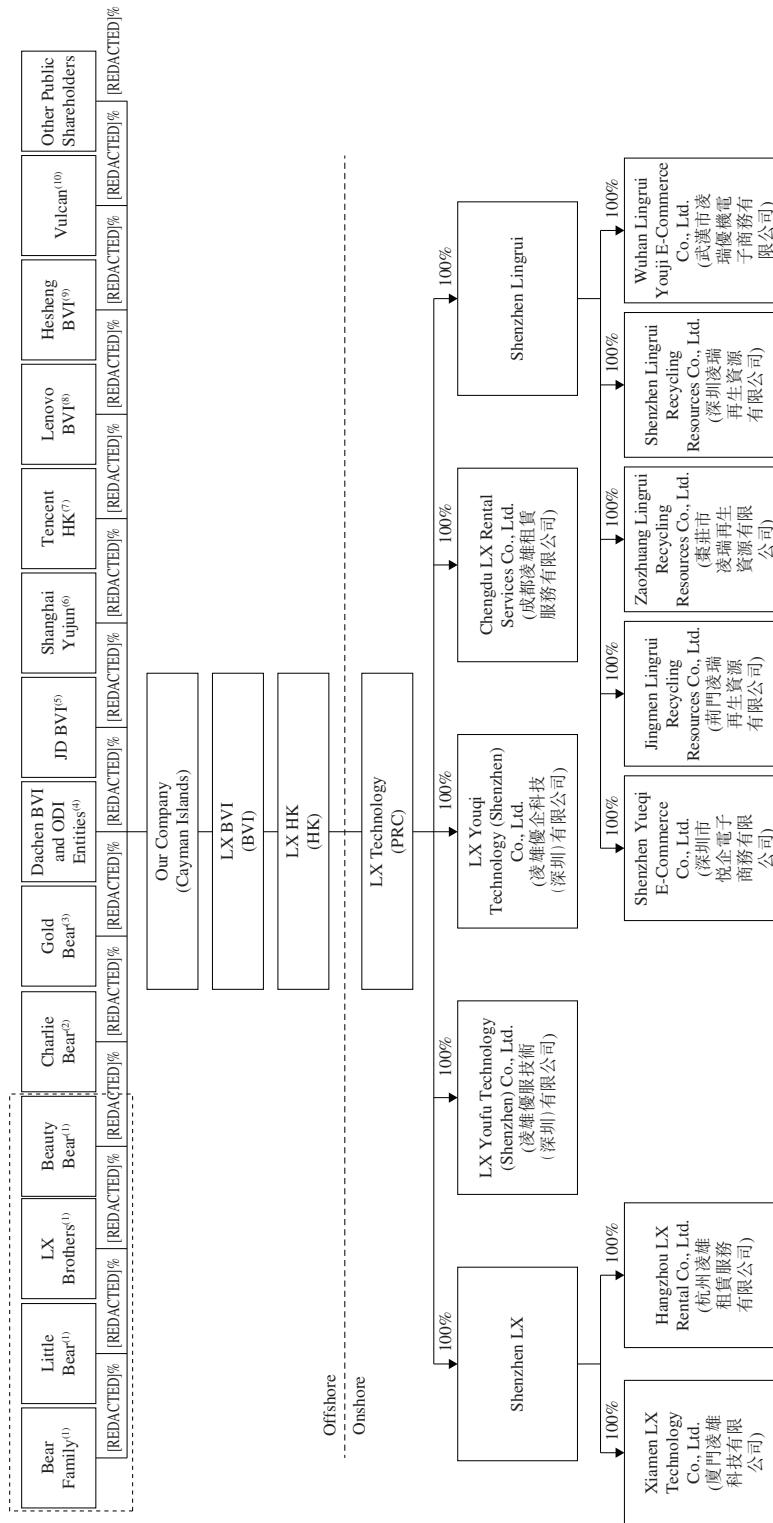
Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Hu, through Bear Family, Little Bear, LX Brothers and Beauty Bear, will be able to exercise approximately [REDACTED]% of the voting rights of our Company.

- (2) Charlie Bear, a company incorporated in the BVI on November 5, 2021, is wholly-owned by Mr. Zhang, an Independent Third Party.
- (3) Gold Bear, a company incorporated in the BVI on November 5, 2021, is wholly-owned by Mr. Hua, an employee of LX Technology.
- (4) Dachen BVI and ODI Entities include Dachen Chuangtong BVI, Dachen Chuangjing BVI and Dachen Chuangyuan ODI. For details between these entities, see “Pre-[REDACTED] Investments – Background information of the Pre-[REDACTED] Investors.”
- (5)-(10) See “Pre-[REDACTED] Investments – Background information of the Pre-[REDACTED] Investors” for the detailed background information of the Pre-[REDACTED] Investors.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Corporate Structure Immediately After the Completion of the [REDACTED]

The following chart sets forth the corporate and shareholding structure of our Group immediately after the completion of the [REDACTED] (assuming each of the Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series D-1 Preferred Shares, Series D-2 Preferred Shares and Series D-3 Preferred Shares has been converted to Shares of the Company on a one-to-one basis and the [REDACTED] is not exercised):



Note: See notes of the subsection headed “Corporate Structure Immediately Prior to the [REDACTED]” above for details.

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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. In 2021, our revenue accounted for a market share of approximately 3.9%. 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 management 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. As of December 31, 2019, 2020, 2021 and June 30, 2022, the number of registered corporate customers who were also our device subscription customers amounted to 801, 2,152, 4,638 and 6,611, respectively, accounting for 5.7%, 11.8%, 18.7% and 23.7%, respectively, of all of our registered corporate customers as of the same dates. See “Business – Our Business Model – Device Management SaaS – Bear Butler” for details.

Compared to traditional practices, device and IT technical subscription services help enterprises realize reduced operating costs by approximately 10% to 30% in a three-year period, according to CIC. In particular, DLM benefits enterprises in the following aspects: (i) avoiding substantial financial pressure due to the large one-time costs arising from device purchases; (ii) ensuring availability of device maintenance services without maintaining a large team of in-house IT staff, whose average salary has been rising; (iii) efficient equipment management and utilization, and (iv) convenient and secured way to dispose of decommissioned devices. According to CIC, with the continuous investments in IT equipment by enterprises and the deepening of flexibility in office, the DLM market in China is expected to experience growth at a faster rate in the years ahead, increasing to RMB138.2 billion in 2026 at a CAGR of 32.0% during the forecast period from 2021 to 2026. In addition, a large number of waste IT devices are not effectively recycled or disposed of in China. According to CIC, given the emergence of DLM solution providers as well as a growing environmental awareness among enterprises, the device recycling market in China is anticipated to experience an

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expansion in the years ahead and continue expanding at a faster pace. The market size of device recycling business in China has grown from RMB1.8 billion in 2017 to RMB6.8 billion in 2021 in terms of revenue at a CAGR of 39.2%, and is expected to reach approximately RMB26.1 billion in 2026 in terms of revenue at a CAGR of 31.0% from 2021 to 2026.

Founded in 2004, we started out with computer assembly services and sale of second-hand personal computers, which were conducted solely offline and served primarily individual customers. During the initial operation period, we established business relationship with computer suppliers, and accumulated years of experience and resources. Subsequently, we launched short-term and long-term computer rental programs in 2008 and 2013, respectively, focusing on desktop and laptop computers, and at the same time started providing IT technical services to enterprises. As long-term device subscription services can provide us with a stable and predictable stream of subscription income, it has been the focus of our device subscription business during the Track Record Period. We aspire to make DLM available to millions of individual users working in enterprises across China. Over the years, our business model has evolved from an offline single-product model serving primarily individual customers into a business model covering both long-term and short-term subscription periods and major phases in device lifecycle, serving primarily enterprises and individual users working therein. 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. In 2018, we launched our device management SaaS.

Since our inception, we have instilled social values into our DLM business by promoting green economy and shared economy by facilitating enterprises to lower their operating costs and improving their IT device full-lifecycle utilization, for which we have gained excellent reputation and established a reputable corporate image. For example, we became a member of the National SME Public Service Demonstration Platform (國家中小企業公共服務示範平台) in 2019 and one of the Specialized and New “Little Giant” Enterprises (專精特新“小巨人”企業) in 2021, both of which were high recognitions issued by MIIT. Capitalizing on our leading position and constant business growth, we continuously advocate for a vibrant ecosystem connecting suppliers, customers and sales platforms in China’s DLM industry. Being actively explored by us and other industry players, we believe DLM will continue to exert positive ESG influence on the working environment for China’s enterprises.

In recent years, the implementation of mass entrepreneurship and favorable policies by the Chinese government have increased the number of enterprises in China, especially SMEs, which are our target group of customers given their growing IT spending and increasing needs for DLM solutions, which can help enterprises (i) avoid significant capital expenditure in purchasing devices themselves, and (ii) dispose of de-commissioned devices in a secured and cost-efficient manner.

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Our Business Model

Our DLM solutions directly tackle the pain points of enterprises during procurement, maintenance, management and disposal of IT devices, relieving them of substantial financial pressure for one-time purchase of IT devices, slow technical support responses, insufficient flexibility in IT device management and low utilization rates of IT devices. Our DLM solutions mainly consist of device recycling business, device subscription services, IT technical subscription services and device management SaaS.

See “– Our Business Model – Overview” for details.

Our Operation Highlights

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 to RMB1,330.4 million in 2021, representing a CAGR of 63.1%; and 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 adjusted EBITDA⁽¹⁾, 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 increased by 15.4% from RMB110.5 million for the six months ended June 30, 2021 to RMB127.5 million for the six months ended June 30, 2022. Our net loss for 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022 amounted to RMB60.3 million, RMB177.1 million, RMB448.7 million, RMB268.1 million and RMB5.8 million, respectively. We achieved NDRR of 117.4%, 113.8% and 138.8% as to our device subscription services, respectively, in 2019, 2020 and 2021; and 126.4% and 122.6%, respectively, for the six months ended June 30, 2021 and 2022.

Our device management SaaS serves as a bridge connecting our device recycling business, device subscription services and IT technical subscription services, as well as enhancing user stickiness. We were in business collaborations with over 1/2 of the top 30 Internet companies including, among others, our strategic Shareholders and business partners JD.com and Lenovo, during the Track Record Period for our device recycling business and device subscription services, providing strong revenue contribution and steady device supplies. In addition, we have attracted and retained a large number of customers which contributed to our revenue growth during the Track Record Period, a majority of which was attributable to our KA customers. During the Track Record Period, our KA customer growth rate reached 37.6%, 55.5%, 48.6% and 20.6% as of December 31, 2020 and 2021 and June 30, 2021 and 2022, respectively. We also generated KA customer retention rate of 78.9%, 80.3%, 84.2% and 84.8%, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2021. Each KA

(1) We define EBITDA (a non-IFRS measure) as loss and total comprehensive expense for the year by adding back (i) finance costs, (ii) bank interest income, (iii) income tax expense, and (iv) depreciation of property, plant and equipment, and right-of-use assets. We add back [REDACTED], fair value change of FVTPL and share-based payments expense to derive adjusted EBITDA (a non-IFRS measure). For details, please refer to the section headed “Financial Information – Non-IFRS Measure” of this document.

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customer contributed an average revenue of RMB82,436, RMB117,101 and RMB153,312 of long-term device subscription services in 2019, 2020 and 2021, respectively, representing a CAGR of 36.4%; and RMB76,424 and RMB73,384 for the six months ended June 30, 2021 and 2022, respectively.

See “– Our Business Model – Key Operating Data” for details.

Our corporate growth history encompasses three eras, representing our past, present and future:

- Era 1.0: We became an IT device subscription service provider in China as a first-mover in the industry
- Era 2.0: We offered the DLM solutions in China, having accomplished integration and a closed-loop of DLM
- Era 3.0: We desire to establish a strong network connecting with more market participants and leverage our industry experience and resources to lead the formation of a DLM ecosystem as a forerunner

Capturing on opportunities brought by new economy companies and emerging business models in China with needs to reduce costs and achieve more efficient IT device utilization, we believe that our flexible, scalable and all-encompassing DLM solutions will enable our customers to maintain a competitive edge against other industry participants.

OUR STRENGTHS

We believe the following competitive strengths have contributed to our success and will help drive our growth in the future.

The first DLM solution provider with a business model covering major phases in device lifecycle and a market-leading position in China

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. We are highly recognized, with high demand for our services leading to our significant growth and increase in revenue during the Track Record Period. 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, representing a CAGR of 63.1% during this period. While at the same time, according to CIC, the market size of China’s DLM industry has grown from RMB19.7 billion in 2019 to RMB34.5 billion in 2021 in terms of revenue, representing a CAGR of 32.5% during the same period. Leveraging our market-leading position in China’s DLM industry, we believe that with our proven track record, we can enjoy sustainable growth over a prolonged period in this fast-growing market.

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Our DLM, which consists of device recycling business, device subscription services, IT technical subscription services and device management SaaS, integrates our hardware and software as well as supplier and customer resources to comprehensively solve the critical issues encountered in the device management of China’s enterprises. These issues include low utilization rates of IT devices, hefty costs for IT technical subscription services and IT device procurement, slow technical support responses and insufficient flexibility in IT device management. Our goal is to facilitate office device management for enterprises and to enhance the utilization rate of, and recreate value for, enterprise IT devices.

Since our inception in 2004, we have witnessed a rising DLM industry in China. After nearly two decades, we have established a reputable corporate image and a strong brand. We enjoy a leading position in China’s DLM industry in the following respects:

- *First-mover advantage.* According to CIC, we are one of the first companies to enter China’s DLM industry. With years of in-depth development and growth assisted by our superior capabilities, we have successfully created a closed-loop DLM business model.
- *Comprehensive service categories.* Our comprehensive DLM solutions have increased customer stickiness and the likelihood that a new corporate user starts purchasing one or more of our services. In addition, we offer a broad range of devices with multiple types and configurations for selection, including widely used brands of desktop and laptop computers, monitors, servers, printers, photocopiers and conference video systems, such as Lenovo, HP, Dell and Apple. As a result, the number of our long-term device subscription customers increased from 5,068 in 2019 to 6,671 in 2020 and further to 10,030 in 2021, representing a CAGR of 40.7% during this period; and increased by 64.5% from 6,058 for the six months ended June 30, 2021 to 9,966 for the six months ended June 30, 2022.
- *Superior operational efficiency.* We benefit from our superior operational efficiency enabled by the scale of our wide range of services and supported by our powerful IT system that covers functions including the front-desk customer service, middle-office business processing, order settlement and delivery and office asset management, and back-end business integration, automated financial information generation and logistics management.
- *Strong support from strategic Shareholders.* We have received investment and valuable resources from our strategic Shareholders, including customer resources in our downstream business sectors and supply chain resources in our upstream business sectors. For example, we have received strong support from, and achieved positive synergies with, strategic Shareholders including JD.com. Such strategic collaboration has helped expand our source of funds, broaden our sales channels and supplement our supply chain resources.

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Enhanced device utilization and customer stickiness benefiting from the closed-loop business model

Our closed-loop DLM business model differentiates us from our competitors as we are able to offer a diversified service portfolio compared to other market players in operating in the DLM industry with limited service offerings that enhances enterprises’ use of IT devices on our one-stop platform with a broad spectrum of device management functionalities, increasing our customer stickiness. With years of experience, we have developed a deep understanding of China’s enterprises’ needs for DLM, such as flexibility for enterprises to subscribe IT devices and to scale up and down as needed. Based on this understanding, we initially commenced device subscription services and IT technical subscription services, and later broadened our service categories to include device recycling business and device management SaaS. We ultimately formed a closed-loop DLM business model which has created synergies among our service categories in the following ways:

- *Full utilization of IT devices among different service categories.* The use of devices across our different service scenarios has increased the IT device utilization rate and strengthened our business growth while promoting green economy and shared economy. In our device recycling business, we purchase and refurbish decommissioned IT devices with high residual value that enterprises no longer need and re-categorize them as inventory for our device subscription services, prolonging the lifecycle of IT devices. Moreover, the utilization rate of IT devices has also increased due to their deployment in multiple business scenarios, such as our long-term and short-term device subscription services. Our IT technical subscription services together with device management SaaS enable enterprise users to maintain and manage a pool of IT devices without hiring a team of IT professionals in-house.
- *Increased customer stickiness from the cross-selling among our service categories.* The users of our different service categories may be attracted to purchase multiple services. This cross-selling process is facilitated by our *Bear Butler* software application by recommending and promoting the advantages of engaging our DLM solutions, which have effectively enhanced our customer stickiness. Consequently, our operating expense ratio (i.e. the aggregate of distribution and selling expenses and administrative expenses) dropped from 22.7% in 2019 to 11.8% in 2021, and from 12.8% for the six months ended June 30, 2021 to 11.7% for the six months ended June 30, 2022.

Our closed-loop DLM model provides us with an independently-built and self-operated service system centered on creating superior customer experience, covering logistics and post-sales functions. Our service system helps enhance customer experience while improving and optimizing the process through operational data collection and analysis. In addition, it helps us gain deeper insights into our customer’s business risks. When certain business risks are detected, we are able to take measures, such as retrieving devices provided to device subscription service customers, in a timely fashion.

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Rapidly expanding customer base through reliable customer outreach channels

We have maintained large user traffic benefiting from our partnership with our strategic Shareholders and business partners. In particular, we have co-developed customer service portals z1.jd.com and zulin.jd.com in cooperation with JD.com on the homepage of JD.com’s e-commerce platform, through which enterprise customers of JD.com are able to access and subscribe for our DLM solutions and complete the transaction via these portals directly. Our cooperation with Lenovo is similar to the one with JD.com discussed above. Having served as its designated business partner in respect of office equipment solutions, Tencent WeStart (騰訊眾創空間) would recommend our DLM solutions to the entrepreneurs and start-ups in the Tencent WeStart hub. Recommendations by Tencent WeStart are favorable to our credibility and position us better among providers of similar solutions.

Aided by our customer acquisition channels, we are capable of expanding the depth and breadth of our services while maintaining stable and long-term collaborations with our KA customers. For the year ended December 31, 2021, we had a diverse customer base consisting of more than 10,000 customers spanning from traditional to new economy industries, among which KA customers contributed a majority of revenue. During the Track Record Period, we maintained high KA customer retention rate, achieving 78.9%, 80.3%, 84.2% and 84.8%, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2021. Each KA customer contributed an average revenue of RMB82,436, RMB117,101 and RMB153,312 of long-term device subscription services, respectively, in 2019, 2020 and 2021, representing a CAGR of 36.4%, and RMB76,424 and RMB73,384, respectively, for the six months ended June 30, 2020 and 2021. We also achieved NDRR of 117.4%, 113.8% and 138.8%, respectively, in 2019, 2020 and 2021; and 126.4% and 122.6%, respectively, for the six months ended June 30, 2021 and 2022. In addition, we value our service coverage for new economy companies and help them transform to asset-light operating entities. With the expansion of business and personnel scale of such companies, their needs for DLM solutions have increased, contributing to our business growth.

Robust and multifaceted operational management capabilities

Our comprehensive management capabilities are crucial to our business success. We possess strong risk control capabilities, device operation management capabilities, information security protection capabilities and supply chain capabilities.

- *Risk control capabilities.* Risk control capabilities are important to our reputation, business development, operational efficiency and financial performance. We believe an effective and sound risk control system helps reduce our operational risks while at the same time lays the foundation for business innovation, thus improving our abilities to serve our customers. Based on the DLM industry’s characteristics, we have established an “online + offline” two-dimensional risk control model that integrates an online intelligent credit profile review system and an offline manual assistance mechanism. The risk control model enables us to encrypt and store customer data and review customer credit profile to minimize security risk. Our comprehensive credit profile review system features over 100 parameters, covering

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multiple aspects such as enterprise status and founders, types of enterprises and industries and locations of office sites. The parameters are adjusted as per our business evolves. Through our offline manual assistance mechanism, we conduct on-site review for first-time customer purchases, with regular on-site inspection during the subscription period and retrieve devices upon identifying material risks. Equipped with our risk control model, we have launched a program from which customers are able to enjoy deposit-free services based on their credit profile. During the Track Record Period, our impairment loss under expected credit loss model as a percentage of revenue decreased from 0.4% in 2019 to 0.2% in 2020 and further to 0.1% in 2021, which is below the industry average ranging from 2% to 5%, according to CIC. This is consistent with our continuing effort in strengthening risk management capabilities.

- *Device operation management capabilities.* Leveraging our extensive experience and practices accumulated over the years, we have developed an effective IT device operation management system, through which our enterprise users are able to accurately and efficiently manage configurations and subscription status of IT devices. Built on such capabilities, we offer device management SaaS, enabling enterprise users solve their issues and difficulties encountered during the process of their office IT device management, such as the lack of technical teams for operation and maintenance and slow technical support responses. Our device operation management application, *Bear Butler*, enables enterprise users to manage the procurement, allocation, repairment, maintenance and disposal of their office IT devices, either in-house or provided by us to our device subscription service customers.
- *Information security protection capabilities.* We adopt prudent measures to ensure information security of our enterprise users. Our data protection measures feature data authorization levels and cross-review mechanisms. We encrypt customers’ data with our proprietary technologies and ensure our technologies are up-to-date. We also provide secure data processing services for device recycling business customers releasing their de-commissioned IT devices which may contain trade secrets that needs to be securely protected. By adopting effective data removal and destruction techniques, including data erasing and physical destruction of hardware, we ensure our customers’ data media are securely protected.
- *Supply chain capabilities.* Our strong supply chain capabilities have laid a solid foundation for our high-quality services. We have established collaborations with leading office equipment manufacturers and internet companies. In particular, we are in cooperation with JD.com, a leading supply chain-based technology and service provider. Not only are we able to secure a stable and high-quality equipment supply from leading equipment manufacturers, which benefits our device subscription services, but we are also able to drive the growth of our device recycling business by capitalizing on the equipment upgrades and replacement process of top internet companies.

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Powerful in-house IT system driving operational efficiency

We believe the digital transformation of enterprises is a destined trend and an indispensable way for most enterprises to achieve significant improvement in quality and efficiency in operations. According to CIC, we are one of the first companies that has achieved digital transformation in the DLM industry. Our integrated in-house IT system is capable of performing numerous functions including the front-desk customer service, middle-office business processing, order settlement and delivery and office asset management, and back-end business integration, automated financial information generation and logistics management.

Our IT system supports our ability to better serve our customers in the course of business operations. We are able to procure customized IT devices with specific functions from manufacturers or their agents, to satisfy the specific needs of our customers from different industries through data collected, analyzed and summarized leveraging our IT system. As undesired functions are removed from the devices before the subscription, our customers’ operating costs can be decreased due to such customization.

In addition, our digital supply chain management system facilitates our procurement and storage arrangements on a real-time basis to ensure optimal supply. Such system has enabled the full-process digitalization of selection, procurement, delivery and warehousing of IT devices. We place customized orders to IT equipment manufacturers to meet our customers’ diversified needs according to customers’ preferences, configuration and brands of the desired IT devices. We track digitally the device’s original value, depreciation and estimated residual value during the entire process from procurement to delivery. Furthermore, our inventory levels are managed through an online warehousing system. We utilize this digital warehousing system to design our marketing and promotion strategies as well as helping our customers with device selection, and to match the inventory level with real-time customer needs.

Capitalizing on our industry-leading technology which propelled our business digital transformation, we apply cutting-edge technology to our risk control system and service system with artificial intelligence (AI) and big data analysis, for reinforcing superior quality of customer services, durable security and utmost efficacy of our services. In particular, we have deployed AI face recognition technology to ensure the accuracy and authenticity of customers’ data, which provides identification verification ensuring only authorized administrators of our corporate customers are able to access their respective registered accounts. We have also leveraged the AI calling system for our IT technical subscription services to improve the quality of customer services. The system intelligently analyzes the IT technical problems and instantly provide solutions and responses to customers by automatic simulating human voices, providing an alternative for customers to solve their IT technical problems immediately, which considerably improves the efficacy of our IT technical subscription services. In addition, by applying big data analysis technology, we are able to identify potential risks and take precautionary measures accordingly. For example, with our proprietary software such as Bear Big Data Intelligent Credit Granting Platform (小熊大數據智能授信平台V1.0), we apply big data analysis technology to analyze their corporate information such as date of establishment, address, and registered capital, as well as their credit records on purchasing devices

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subscription services to assess creditworthiness of our potential customers and determine their appropriate credit limit individually. For further details of our proprietary software, please see “Appendix IV – Statutory and General Information.”

A visionary founder and seasoned management team

We are led by a visionary founder whose deep business insights have driven the sustainable development of our business. Our founder and chief executive officer, Mr. Hu Zuoxiong, has more than 20 years of industry experience. Mr. Hu was named as one of the “Pioneers of Digital Transformation in China” (中國數字化轉型先鋒人物) in the November 2019 version of Harvard Business Review. In September 2020, Mr. Hu co-authored a case report which illustrated the history and success of our digitalization transformation. This report was listed as a collected case by the Guanghua School of Management of Peking University (北京大學光華管理學院). His strategic vision based on his unrivaled experience has helped us create the first-in-industry closed-loop DLM business model.

Besides, we maintain a seasoned management team who are deeply rooted in the industry. Our CTO, Mr. Chen Xiuwei, has been dedicated to the research and development of system algorithms for over 10 years. Mr. Chen has served as an assistant researcher at Microsoft Research Asia and the chief technology officer of a PRC company listed on the Hong Kong Stock Exchange, successively. See “Directors and Senior Management – Board of Directors – Executive Directors” for details. Our CFO, Mr. Jiang Zeli, has nearly 20 years of experience in accounting and finance. See “Directors and Senior Management – Senior Management” for details.

OUR STRATEGIES

To achieve our mission and further solidify our market leadership, we plan to pursue the following strategies.

Broaden our customer base and service categories

We intend to pay close attention and capitalize on changes in market trends, proactively explore the evolving needs of enterprises and broaden our service categories. We plan to expand our customer base while increasing revenue from our existing customers. For example, we expect to attract companies in new economy with bespoke services targeted to their needs. We also plan to establish a team of elite sales personnel and train them to intensify our marketing efforts, to help expand our sales network, diversify customer sources, increase our customer acquisition rate and gain more customer leads. At the same time, by utilizing our cross-selling capabilities, we strive to establish comprehensive solutions to our existing customers and enhance customer stickiness and revenue contribution per customer.

Furthermore, we plan to enhance our service capabilities through incorporating more customer-desired combinations in our service categories covering all industry verticals. In particular, we aim to focus on the development and increase the revenue contribution of the

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comprehensive solutions for printing and conference set-up services, which we have successfully launched as a specific type of our device subscription services in late 2021 benefiting from the huge pool of potential customers from our customer acquisition channels. Specifically, we aim to exemplify cases of our brand customers based on their unique service models and promote them to target companies through online and offline means.

We expect to use approximately [REDACTED]%, or HK\$[REDACTED] million, from the net proceeds of the [REDACTED] to broaden our customer base and service categories, including expanding our elite sales team, strengthening our sales network and enhancing our brand awareness and industry influence through online and offline marketing and brand promotion. See “Future Plans and Use of Proceeds – Use of Proceeds.”

Expand our services in core cities and their CBDs

We aim to expand our footprints in first- and second-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen. We aim to further amplify our market share in the cities in which we have established presence. We also aim to spread our influence in these cities’ CBDs. We are optimistic about the long-term value of CBDs, the high density of which makes it easier to deliver integrated and low-cost services. In the future, we plan to increase our coverage of and enhance customer concentration in, key business districts.

Leveraging our presence in key existing markets, we will grow our brand awareness and strengthen our influence in new and existing industries by conducting service benchmarking, precision marketing and brand promotion in various industries, and thus attract and retain more enterprise users and achieve business scale in a broader market.

We expect to use approximately [REDACTED]%, or HK\$[REDACTED] million, from the net proceeds of the [REDACTED] to expand our services in core cities and their CBDs, and expand our customer base of growing enterprises. See “Future Plans and Use of Proceeds – Use of Proceeds.”

Promote our operational management capabilities of IT devices during the full device lifecycle

We aim to continuously promote our capability to refurbish de-commissioned IT devices to extend their service life and upgrade their performance and improve customer experience, in which we expect to use approximately [REDACTED]%, or HK\$[REDACTED] million, from the net proceeds of the [REDACTED]. See “Future Plans and Use of Proceeds – Use of Proceeds”. In addition, we plan to upgrade our digital IT system to incorporate the classification of corporate users and business scenarios. In this way, the device’s turnover can be improved in an efficiency way as its circulation among different users under different scenarios. Having met corporate users’ specific needs, we will also be able to provide an optimal solution. Furthermore, we will continuously strengthen our disposal capabilities of second-hand devices, either purchased from our device recycling business users or de-commissioned from our self-owned devices for subscription, to optimize their residual value.

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Advance investment in technology to optimize operational efficiency

Our operational capabilities are built upon the foundational technologies and data generation capabilities and nurtured through our years of operations, which are crucial to our providing more efficient services. We believe our continuous investment in technology will become a driving force for our future business growth. We aim to further advance our digital IT system through timely innovation and upgrades to optimize our operational efficiency. We plan to strengthen our technological capabilities by continuously investing in emerging technologies, such as AI, to make full use of the large customer base and transaction data accumulated in our IT system. We also expect to enhance our intelligent matching capabilities to increase the likelihood for a customer to effect a transaction, improving both customer loyalty and service affordability.

In addition, we plan to improve our operational efficiency by integrating third-party value-added services to our platform. We will continue to optimize our service and operating process through digital transformation. For example, we plan to increase our cross-selling capabilities among different service categories by further studying the synergies between our device recycling and device subscription services, increasing revenue contribution per customer.

We expect to use approximately [REDACTED]%, or HK\$[REDACTED] million, from the net proceeds of the [REDACTED] to enhance our technology capabilities and upgrade system infrastructure to improve our operational efficiency. See “Future Plans and Use of Proceeds – Use of Proceeds.”

Strengthen our credit-based supervision mechanism by enhancing our risk management capabilities

We plan to strengthen our credit-based supervision mechanism by upgrading our business database and optimizing our risk control model during the course of business. A sound risk control model is the basis for a healthy credit-based supervision mechanism, which lays a foundation for our operations and business growth. Specifically, we aim to improve the efficiency and accuracy of risk assessment. We will establish a more intelligent risk monitoring system to more accurately predict the location of risk occurrence and dispatch personnel to solve the problems in a timely manner. In addition, we aim to expand our risk management team and recruit more risk management experts. We also plan to build an in-house offline risk management team.

We expect to use approximately [REDACTED]%, or HK\$[REDACTED] million, from the net proceeds of the [REDACTED] to strengthen our risk management capabilities, including upgrading our risk control model and recruiting risk control teams. See “Future Plans and Use of Proceeds – Use of Proceeds.”

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OUR BUSINESS MODEL

Overview

DLM covers the full lifecycle of an IT device, which primarily consists of procurement, maintenance, management and disposal. DLM enables better control over device functionality and easier device troubleshooting, which largely enhances the reliability of IT devices. DLM has become critical for enterprises to ensure a reliable, efficient and secure IT device management system. However, most enterprises still rely on their in-house IT specialists or local small-scale service providers for the management of IT devices, according to CIC.

Our DLM solutions directly tackle such pain points of enterprises’ management of devices. With the aim to transform enterprises’ management of devices through services covering major phases of IT device lifecycle, our revenue from DLM solutions during the Track Record Period was primarily generated 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.

Gross margin of our device recycling business has been relatively low as it is our strategy to resell de-commissioned devices as soon as possible, usually at lower selling prices and lower gross margin, to minimize the risk of inventory obsolescence, considering rapidly changing customer preference as well as different new models, design and functions being launched from time to time. Fluctuations in such gross margin during the Track Record Period, primarily due to a shift in our product mix and fluctuating average prices at which we sold our de-commissioned devices. See “Financial Information – Discussion of Results of Operations” for a detailed analysis of the changes in the gross profit margin during the Track Record Period, and “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” for a detailed analysis on the relevant risks.

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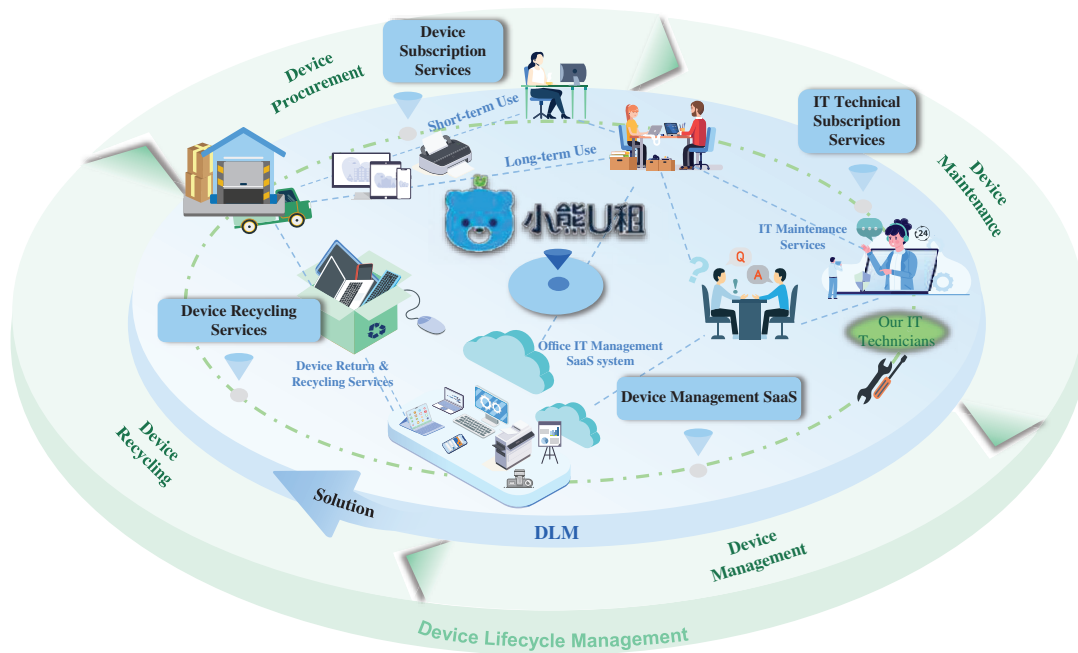
- *Device subscription services.* Our device subscription services primarily include selecting IT devices (including brand new devices and de-commissioned devices after refurbishment) suitable for users, assembling devices, pre-installing device configurations and customizing system settings. We offer 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.

Our customers can choose among the four categories of services in the desired combinations to address their specific needs depending on their particular business development stages and diverse operational scenarios to achieve optimal office asset allocation and capital expenditure, as well as enhance human resource allocation and operational efficiency.

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The figure below illustrates our closed-loop DLM business model during the full device lifecycle:



Key Operating Data

The following tables set forth certain of our key operating data for the periods indicated:

Device Recycling Business

	As of/Year ended December 31,			CAGR*	As of/Six months ended June 30,	
	2019	2020	2021		2021	2022
Number of devices sold (<i>device</i>)	151,155	598,685	857,118	138.1%	202,701	472,682
Number of device recycling customers	1,198	1,059	1,101	(4.1%)	524	596
Average revenue per device recycling customer ⁽¹⁾ (<i>RMB</i>)	252,791	722,566	839,608	82.2%	682,835	1,060,598
Average sales value ⁽²⁾ (<i>RMB/device</i>)	1,211.6	914.5	876.9	(14.9%)	1,232.1	1,261.2

* CAGR only refers to the growth rate from the year ended December 31, 2019 to the year ended December 31, 2021.

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Device Subscription Business – Devices

	As of/Year ended December 31,			CAGR*	As of/Six months ended June 30,						
	2019	2020	2021		2021	2022					
	%	%	%		%	%					
Number of devices for subscription**	231,505	100.0	347,951	100.0	455,357	100.0	40.2%	429,588	100.0	488,993	100.0
– Laptop computers	106,446	46.0	150,206	43.2	209,197	45.9	40.2%	192,463	44.8	231,439	47.3
– Desktop computers	89,819	38.8	152,930	44.0	198,233	43.5	48.6%	192,047	44.7	215,044	44.0
– Mobile phones and tablet computers	18,580	8.0	20,511	5.9	23,766	5.2	13.1%	21,391	5.0	18,583	3.8
– All-in-one computers	11,542	5.0	16,178	4.6	13,165	2.9	6.8%	13,809	3.2	12,643	2.6
– Conference-related and other devices	3,596	1.6	4,524	1.3	6,037	1.3	29.6%	5,695	1.3	6,068	1.2
– Printers and photocopiers	1,522	0.7	3,602	1.0	4,959	1.1	80.5%	4,183	1.0	5,216	1.1
Number of devices subscribed	206,382		310,265		388,406		37.2%	383,022		398,908	
Subscription rate of devices (%)#	89.1		89.2		85.3		N/A	89.2		81.6	

* CAGR only refers to the growth rate from the year ended December 31, 2019 to the year ended December 31, 2021.

** Number of devices for subscription represents the total number of devices owned by us which are available to be subscribed by customers and include devices being subscribed for by customers and those not yet subscribed for by customers.

Subscription rate of devices equals to the number of devices subscribed divided by the number of devices for subscription at the end of a given year or period.

Subscription Business – Volume and Price

	Year ended December 31,			CAGR*	Six months ended	
	2019	2020	2021		June 30,	2022
					2021	2022
Total device subscription volume (device)**	1,884,458	2,766,998	4,235,301	49.9%	1,910,667	2,243,465
Average monthly device subscription price ⁽³⁾ (RMB/device)	43.6	52.0	62.7	19.9%	60.2	67.0
– Long-term subscription	46.1	51.9	61.7	15.7%	59.7	64.7
– Short-term subscription	34.0	52.2	67.5	40.9%	63.4	80.3
Total IT technical service subscription volume (device)	1,227,953	1,814,452	2,743,947	49.5%	1,204,028	1,544,455

* CAGR only refers to the growth rate from the year ended December 31, 2019 to the year ended December 31, 2021.

** Total device subscription volume represents the total amount of times our devices are subscribed by the customers in a given year/period. As the devices are subscribed for a period of time, we track the total amount of times that our devices have been leased out in a given year/period, and do not keep a separate record for the year/period-end numbers.

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	Year ended December 31,			CAGR*	Six months ended	
	2019 2020 2021				June 30,	
	2019	2020	2021		2021	2022
Average monthly IT technical service subscription price (RMB/device)	94.0	62.4	51.2	(26.2%)	53.2	46.3
Average monthly IT technical service subscription price per customer (RMB)	998	1,028	1,047	2.4%	1,386	1,150
Average revenue per KA customer of long-term device subscription services (RMB)	82,436	117,101	153,312	36.4%	76,424	73,384

Device Subscription Business – Customers

	As of/Year ended December 31,			CAGR*	As of/Six months ended June 30,	
	2019 2020 2021				2021 2022	
	2019	2020	2021		2021	2022
Number of long-term device subscription customers	5,068	6,671	10,030	40.7%	6,058	9,966
Number of short-term device subscription customers	6,317	4,103	4,538	(15.2%)	2,881	2,768
NDRR ⁽⁴⁾	117.4%	113.8%	138.8%	N/A	126.4%	122.6%
KA customer growth rate ⁽⁵⁾⁽⁶⁾	72.7%	37.6%	55.5%	N/A	48.6%	20.6% ⁽⁶⁾
KA customer retention rate ⁽⁷⁾	78.9%	80.3%	84.2%	N/A	84.8%	N/A ⁽⁷⁾

Notes:

- (1) Average revenue per device recycling customers represents the device recycling income divided by the number of device recycling customers in a given year/period.
- (2) Average sales value represents the total sales value of de-commissioned devices divided by the number of devices sold in a given year/period.
- (3) Our average monthly subscription price is measured as follows:

$$\text{Average monthly device subscription price in a given year/period} = \frac{\text{revenue from device subscription services}}{\text{subscription volume during a given year/period}}$$

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- (4) Net dollar retention rate, a metric used to measure a company’s capability to generate revenue from long-term device subscription returning customers.

Our NDRR is measured as follows:

$$\text{NDRR in a given 12-month period} = \frac{\text{revenue in the given 12-month period from the long-term device subscription customers returned from the preceding 12-month period}}{\text{revenue generated from the long-term device subscription customers in the preceding 12-month period}}$$

As advised by CIC, it is an industry practice for DLM solution companies to use NDRR to measure the capability to generate revenue from long-term device subscription returning customers. As the number of devices and services subscribed by each retained customer may also increase, the number of retained customers alone cannot provide a complete picture about the extent of a DLM solution company’s customer retention. The DLM solution companies hence adopt NDRR which can be better evaluate the relationship between the customer retention and the revenue growth. The DLM solution companies use a standard approach to calculate NDRR, with a few discrepancies in the statistics caliber of data.

- (5) KA customer represents our customers under our long-term device subscription services subscribing 30 devices or more as of January 1 of a particular year.

As advised by CIC, KA customers play an important role in the business development for a DLM solution company. Although the exact scope of KA customers among different companies may vary due to their different business strategies and layout, the common key features for KA customers mainly consist of two aspects: (i) customers with large contribution to the company’s revenue, and (ii) customers with high potential to contribute to the company’s business and revenue growth in the future. Given that KA customers have large contribution and/or high potential to contribute to the company’s revenue growth, the number of KA customers and the associated growth and retention rates have been commonly used as key metrics to evaluate their business growth. In light of the foregoing, CIC is of the view that KA customers and the associated growth and retention rates are generally considered as appropriate industry metrics in the DLM industry.

- (6) Our KA customer growth rate is measured as follows:

$$\text{KA customer growth rate} = \left(\frac{\text{number of KA customers in a given year}}{\text{number of KA customers in the preceding year}} - 1 \right) \times 100\%$$

We used the number of KA customers under our long-term device subscription services subscribing 30 devices or more as of July 1 of the relevant years to calculate the KA customer growth rates as of June 30, 2021 and 2022, respectively.

- (7) Our KA customer retention rate is measured as follows:

$$\text{KA customer retention rate} = \frac{\text{number of KA customers retained as of January 1 of a given year and that of the following year}}{\text{number of KA customers as of January 1 of that given year}} \times 100\%$$

We used the number of KA customers under our long-term device subscription services subscribing 30 devices or more as of July 1 of the relevant years to calculate the KA customer retention rate for the six months ended June 30, 2021. The KA customer retention rate as of June 30, 2022 will become available on or after July 1, 2023.

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During the Track Record Period, we 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 the average estimated useful lives and average aging of our major types of devices for subscription as of June 30, 2022:

	Average estimated useful lives⁽¹⁾ (months)	Average aging (months)⁽²⁾
Devices for subscription	65.7	19.8
– Laptop computers	65.5	18.2
– Desktop computers	66.3	20.9
– Mobile phones and tablet computers	61.8	21.3
– All-in-one computers	68.1	26.5
– Conference-related and other devices	62.2	25.0
– Printers and photocopiers	65.3	19.3

Notes:

- (1) We assume the estimated useful lives of brand-new devices to be 72 months, and second-hand devices to be 48 months.
- (2) Our devices for subscription are categorized as our property, plant and equipment. The average aging of a given type of devices is measured as the average months for which depreciation has been accrued for all devices of the given type.

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The following table sets forth the average monthly utilization rates⁽¹⁾ of our major types of devices for subscription for the periods indicated:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
	(%)			(%)	
Devices for subscription	83.4	83.7	84.9	83.5	81.7
– Laptop computers	84.8	87.6	86.1	85.5	80.4
– Desktop computers	81.3	82.8	85.3	83.7	84.6
– Mobile phones and tablet computers	82.3	86.1	89.6	91.0	85.7
– All-in-one computers	85.2	74.2	80.8	74.8	78.3
– Conference-related and other devices	88.8	37.5	48.5	39.8	45.6
– Printers and photocopiers	90.2	48.7	47.8	37.1	55.9

Note:

(1) The utilization rates are measured as follows:

$$\text{Utilization rate} = \frac{\text{Aggregate number of devices under subscription in a particular month}}{\text{Aggregate number of devices as of the end of that particular month}}$$

Discussion on Device Recycling Business

During the Track Record Period, we experienced a significant increase in the number of devices sold due to our enhanced procurement capability and better availability of de-commissioned IT devices driven by the increase in upstream suppliers of de-commissioned IT devices. During the same periods, the average sales value per device generally experienced a constant decrease as it was affected by the changes in the mix of devices sold. In 2019, 2020 and 2021, our sales value of major devices generally ranged from approximately RMB300 to RMB5,871, RMB300 to RMB4,857, and RMB306 to RMB5,215 of our major types of sold devices, respectively. For the six months ended June 30, 2021 and 2022, our sales value of major devices generally ranged from approximately RMB301 to RMB5,210 and RMB300 to RMB5,290, respectively.

Number of device recycling customers represented customers purchased de-commissioned devices from us during a given year/period and has been constantly increasing in 2021 as compared to 2020, and the six months ended June 30, 2022 as compared to the six months ended June 30, 2021.

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Discussion on Device Subscription Business – Devices

As of December 31, 2019, 2020, 2021 and June 30, 2022, we experienced an increase in the number of devices for subscription due to growing business needs of enterprises and an increase in the number of long-term device subscription customers. The number of our major type of devices for subscription were on an increasing trend, except for mobile phones and tablet computers as well as all-in-one computers which experienced some fluctuations as of December 31, 2019, 2020, 2021 and June 30, 2022. The average monthly utilization rates of conference-related and other devices as well as printers and photocopiers were relatively low as of December 31, 2019, 2020, 2021 and June 30, 2022 as these device categories were mainly for short-term subscriptions, the utilization of which was not as predictable as that of long-term subscriptions. Nevertheless, the number of devices under the above categories generally increased as of December 31, 2019, 2020, 2021 and June 30, 2022 as a result of our effort to maintain a balanced mix of devices to better cope with the demand of our customers.

Discussion on Subscription Business – Volume and Price

Our average monthly device subscription prices for both long-term and short-term subscriptions experienced a steady growth during the Track Record Period, primarily attributable to the increase in average device procurement costs, which was resulted from our purchases of more brand-new devices, the average subscription price of which is higher than that of second-hand devices. During the Track Record Period, purchases of brand-new devices accounted for approximately 48.5%, 83.1%, 77.2% and 84.0%, respectively, in 2019, 2020, 2021 and for the six months ended June 30, 2022, of all devices purchased for subscription in the respective year/period. The following table sets forth our revenue generated from subscription services with, and total device subscription volume from brand-new devices and second-hand devices, respectively, for the periods indicated:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30, 2021	2022
Revenue from device subscription services					
<i>(RMB'000)</i>					
– Brand-new devices	42,047	96,807	201,040	85,656	122,461
– Second-hand devices	40,038	47,040	64,562	29,352	27,906
Total device subscription volume					
<i>(device)</i>					
– Brand-new devices	1,884,458	2,766,998	4,235,301	1,910,667	2,243,465
– Second-hand devices	635,190	1,489,054	2,832,874	1,248,648	1,668,122
	1,249,268	1,277,944	1,402,427	662,019	575,343

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Our monthly long-term device subscription price ranged from RMB35 to RMB175 in 2019, RMB35 to RMB252 in 2020, RMB50 to RMB314 in 2021, RMB52 to RMB314 for the six months ended June 30, 2021 and RMB53 to RMB307 for the six months ended June 30, 2022; and our monthly short-term device subscription price ranged from RMB16 to RMB192 in 2019, RMB36 to RMB199 in 2020, RMB35 to RMB215 in 2021, RMB38 to RMB208 for the six months ended June 30, 2021 and RMB43 to RMB225 for the six months ended June 30, 2022. Our monthly subscription price of major devices (including device and IT technical subscription) generally ranged from approximately RMB70 to RMB349 in 2019, RMB69 to RMB398 in 2020, RMB70 to RMB449 in 2021, RMB74 to RMB448 for the six months ended June 30, 2021 and RMB76 to RMB450 for the six months ended June 30, 2022 of our major types of subscribed IT devices, respectively. According to CIC, our Industry Consultant, for devices of similar brands and configurations, there has been no material difference between the monthly subscription fees charged by the Company and those charged by industry peers of similar market position.

Our average monthly IT technical subscription price experienced a constant decrease during the Track Record Period, primarily due to the increasing proportion of long-term IT technical subscription services, the average monthly subscription price of which was generally lower compared to that of short-term IT technical subscription services during the Track Record Period, as our long-term IT technical subscription services would generally be provided remotely through phone call or online through *Bear Butler*, or on-site, on an as-needed basis for maintenance purposes, whereas business scenarios under short-term IT technical subscription services, including offline large-scale examinations, exhibitions, technology conferences and shopping festivals, would generally require more personnel of our on-site IT operation and maintenance team to help with the network set up, protection of devices during use, on-site maintenance and repairment in case of device failures, and timely retrieval of devices upon completion of use throughout the entire service period. The following table sets forth our revenue generated from the long-term and short-term IT technical subscription services, respectively, 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	%	RMB'000	%
Revenue from IT technical subscription services	115,410	100.0	113,125	100.0	140,392	100.0	64,112	100.0	71,529	100.0
– Long-term subscriptions	69,886	60.6	75,577	66.8	97,685	69.6	44,877	70.0	54,692	76.5
– Short-term subscriptions	45,524	39.4	37,548	33.2	42,707	30.4	19,235	30.0	16,837	23.5

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Discussion on Device Subscription Business – Customers

The number of our long-term device subscription customers presented a constant growth during the Track Record Period, as a result of the growing acceptance of device subscriptions among enterprises as well as our improving capabilities of customer acquisition. We experienced a decrease in the number of short-term device subscription customers in 2020, primarily attributable to the decrease in offline exhibitions and examinations held in 2020 due to the COVID-19 pandemic. Our NDRR generally experienced an increase during the Track Record Period, with a slight fluctuation in 2020 and for the six months ended June 30, 2022.

We experienced an increase in our KA customers during the Track Record Period. As we commenced our large-scale business expansion in 2018 after our Series A Investment, the relatively small KA customer base as of December 31, 2018 and the fast increase at the beginning of the expansion resulted in a large KA customer growth rate as of December 31, 2019. The number of our KA customers experienced a slower growth as of June 30, 2022 as compared to December 31, 2021 as the resurgence of COVID-19 pandemic has restricted our direct sales efforts, which is primarily conducted through face-to-face marketing; in addition, our customers engaged in the education and training industry had less demand for device subscriptions caused by the unfavorable government regulations. In July 2021, the General Office of the CPC Central Committee and the General Office of the State Council published the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》, the “**Opinion**”), which stipulates that (i) local government authorities shall no longer approve new off-campus subject-based education and training institutions aiming at compulsory-educated students, and (ii) the existing subject-based education and training institutions are required to be registered as non-profitable, and online subject-based education and training institutions need to go through a strict examination to obtain approvals for the operations. In compliance with the Opinion and applicable rules, regulations and measures, many companies engaged in the education and training industry decided to cease offering tutoring services related to academic subjects to students in compulsory education stage in the second half of 2021, resulting in closures of learning centers and massive layoffs. As a result of such closures and layoffs, our customers in the education and training industry had less demand for device subscriptions. During the Track Record Period, our customers in the education and training industry contributed RMB26.8 million, RMB53.0 million, RMB62.5 million and RMB16.3 million, respectively, in 2019, 2020 and 2021 and for the six months ended June 30, 2022, accounting for 5.4%, 5.2%, 4.7% and 1.9%, respectively, of our revenue during the same periods. Despite the less demand for device subscriptions, closures of learning centers and massive layoffs led to more supply of de-commissioned devices for our device recycling business during the Track Record Period. During the Track Record Period, we purchased de-commissioned devices in the amount of approximately RMB0.2 million, RMB1.0 million, RMB154.1 million and RMB42.6 million from education and training institutions, respectively, in 2019, 2020 and 2021 and for the six months ended June 30, 2022. Given the relatively small revenue contribution of, and the increased supply of de-commissioned devices under our device recycling business from, our customers engaged in the education and training industry during the Track Record Period, our Directors are of the view that the unfavorable government regulations imposed on the education and training industry did not and will not have any material adverse impact on our business operations and financial performance.

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During the Track Record Period, the industries in which our subscription customers were engaged were rather fragmented. The table below sets forth the percentage of revenue contribution from our subscription customers (including device and IT technical subscriptions) of our device and IT technical subscription revenue, for the six months ended June 30, 2022.

	Year ended December 31,						Six months ended	
	2019		2020		2021		June 30,	
	<i>Revenue</i> (‘000)	%	<i>Revenue</i> (‘000)	%	<i>Revenue</i> (‘000)	%	<i>Revenue</i> (‘000)	%
Internet and								
telecommunications	49,386	25.0	46,034	17.9	76,024	18.7	40,151	18.1
Professional services	29,616	15.0	33,834	13.2	55,407	13.6	29,138	13.1
Software and IT related								
services	13,277	6.7	17,481	6.8	32,820	8.1	25,298	11.4
Manufacturing	13,896	7.0	17,002	6.6	37,344	9.2	23,075	10.4
E-commerce	20,317	10.3	24,434	9.5	35,652	8.8	18,778	8.4
Education and training	24,790	12.6	51,550	20.1	60,009	14.8	16,115	7.3
Outsourcing of human								
resources	8,271	4.2	11,219	4.4	21,121	5.2	17,004	7.7
Healthcare	3,576	1.8	10,035	3.9	17,415	4.3	11,531	5.2
Consumer and retail	9,987	5.1	10,924	4.3	13,288	3.3	8,747	3.9
Call centers and								
customer services	3,897	2.0	6,473	2.5	11,161	2.7	8,145	3.7
Government agencies								
and SOEs	2,346	1.2	3,840	1.5	6,785	1.7	6,027	2.7
Warehousing and supply								
chain	2,704	1.4	4,856	1.9	7,976	2.0	5,035	2.3
Others	15,432	7.7	19,290	7.4	30,992	7.6	12,852	5.8
Total	197,495	100.0	256,972	100.0	405,994	100.0	221,896	100.0

As of the Latest Practicable Date, to the best knowledge of our Directors after due and reasonable enquiries and save as the above-mentioned, they were not aware of any unfavorable government regulations imposed on the industries in which our customers were engaged which will have material adverse impact on our business operations and financial performance.

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The following tables set forth our new customers and returning customers for each of our service categories for the periods indicated:

	Year ended December 31,			Six months ended	
				June 30,	
	2019	2020	2021	2021	2022
Number of customers of					
device recycling business	1,198	1,059	1,101	524	596
New customers	1,139	808	852	345	389
Returning customers	59	251	249	179	207
Number of customers of					
device subscription					
services	8,749	10,019	13,851	8,486	12,195
New customers	4,787	4,530	7,424	2,681	3,462
Returning customers	3,962	5,489	6,427	5,805	8,733
Number of customers of					
IT technical subscription					
services	9,634	9,168	11,178	7,708	10,367
New customers	5,307	4,413	5,612	2,526	3,593
Returning customers	4,327	4,755	5,566	5,182	6,774

Among which, the following new customers and returning customers were engaged in our full lifecycle of services⁽¹⁾ during the periods indicated:

	Year ended December 31,			Six months ended	
				June 30,	
	2019	2020	2021	2021	2022
Number of customers					
engaged in our full					
lifecycle of services	742	520	552	243	284
New customers	727	419	466	192	227
Returning customers	15	101	86	51	57

(1) Full lifecycle of services includes our closed-loop service categories of device recycling business, device subscription services, IT technical subscription services and device management SaaS.

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Device Recycling Business

Overview

Our device recycling business assists enterprises in unloading their de-commissioned devices and ensuring data is security-guarded in the IT device disposal process. As enterprises are required to continuously upgrade their IT devices to compete against the ever-evolving industry and environment, often, it poses a challenge for them to minimize impact on the environment and ensure the data security when disposing of de-commissioned devices. In addition, third-party service providers with insufficient qualifications may cause damage to information security of enterprises. According to CIC, most of the top internet companies in China typically choose to destroy outdated data by physically destroying the associated hardware, which can be time-consuming and lead to an increase in electronic waste.

Through our device recycling business, we solve enterprises’ pain points by delivering financially beneficial, data-secure and environmental friendly methods in disposing of their de-commissioned devices, primarily by disconnecting IT devices from associated platforms and removing of IT devices from offices. We primarily target for companies engaged in new economy industries such as IT device manufacturing and e-commerce as our suppliers of device recycling business. By using our device recycling business, enterprises can recover a part of their costs of replacing IT devices.

Our Work Performed on De-commissioned Devices

We purchase de-commissioned IT devices from enterprises, upon which the risks and rewards of ownership pertaining to such devices will be transferred to us and their cost will be recognized as our inventory. As we obtain the full ownership and own the disposal right of the devices we purchase, we do not need to obtain consent from the selling enterprises for performing the following work on the devices:

- (i) assessing the appearance and functionality of devices to determine whether such devices should be used for our subscription services. De-commissioned devices assessed to be likely to satisfy the demand of customers of our device subscription services after our refurbishment will be used for our subscription services;
- (ii) removing data on the de-commissioned devices in the manner specified by their vendors through means such as formatting hard drives or erasing all data therein;
- (iii) performing diagnostic tests on both hardware and software to analyze system performance and spot potentially failing hardware and software. Hardware being tested include but not limited to hard disk drives, CPUs, GPUs, battery and fans. Memory tests will also be run on RAMs;
- (iv) fixing faulty parts and issues identified during diagnostic tests performed above; and

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- (v) if the costs to fix the faulty parts and issues identified are expected to exceed subscription income the relevant devices expected to generate, de-commissioned devices will be sold through our own quotation platform or e-commerce platforms, including those operated by our strategic Shareholders and business partners, after the necessary refurbishment and dismantling process.

Provided to Customers under Device Subscription Services

We purchase de-commissioned 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, taking into consideration the particular brand and model, such as Lenovo, HP, Dell and Apple. In this way, we broaden our source in acquiring devices while helping enterprises with recycling de-commissioned devices.

Sell through Our Proprietary Quotation Platform

We sell all of the purchased IT devices from enterprises to customers on bulk purchase through our proprietary quotation platform, except for the ones we sell through e-commerce platforms which are mainly laptops. On our platform, enterprise users register and enter into offline service agreements with us to purchase devices available for sale, and we place de-commissioned devices on display, make price quotes based on our market research, and sell to the highest bidder. Most of the purchasers of these devices are companies engaged in sales of IT devices, who are our target customers.

Our proprietary quotation platform (jp.lr-amm.com) is a website that allows enterprises to register as users for bidding the de-commissioned devices we purchased. It differentiates from our official website, bearrental.com, in that it is a proprietary website for bidding IT devices only, while bearrental.com serves as our official website as well as the main access for device subscription services. Main types of IT devices available for bidding include desktop computers, monitors, servers and mobile phones. The website demonstrates our principal rules for the bidding process, which typically takes around one to three days to complete. Considering (i) the administrative expenses involved and (ii) nature of our target customers (i.e. enterprises rather than individual consumers), we require bidding for de-commissioned devices on our proprietary quotation platform to only be in the form of bulk purchase. Initially, a potential customer registers as a user and provides certain information online, including a phone number for identity verification and future communication. Once the registration is completed, the user must pay a deposit for participating in the bidding. The bidding process is initiated when information about devices available for sale (including the base price which we determine on a cost-plus basis) is posted on the website and lasts until the pre-determined deadline is reached. When a bidding is over, the bidder with the highest price quotation would win the bid, and must complete the payment within 48 hours. If the winner fails to do so, the deposit in its deposit account will be forfeited as liquidated damages. During the bidding process, we do not accept withdrawal or cancellation of any bidding.

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As advised by our PRC Legal Advisor, we are not required to obtain a license for the selling activities conducted on the quotation platform as we do not provide bidding services as an intermediary between the seller and the buyer. Instead, we have obtained complete ownership and full disposal right of the devices we purchase. In addition, as advised by our PRC Legal Advisor, our device recycling business associated with our proprietary quotation platform is not subject to the VIE structure. If the business of an operating entity falls within the scope of the Negative List for Foreign Investment 2021 (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**Negative List**”), foreign investment will be restricted or prohibited and such entity will be subject to VIE structure for the purpose to be listed in Hong Kong. For example, businesses such as value-added telecommunication services (except for those which are fully open to foreign investment) and antiquities auction fall within the scope of the Negative List. Given that (i) we do not provide value-added telecommunication services (i.e. paid advertising and internet information services) as it only sells its self-owned IT devices on its proprietary quotation platform, and (ii) we do not provide bidding services as an intermediary between the seller and the buyer, our device recycling business associated with our proprietary quotation platform does not fall within the scope of the Negative List, and is not subject to the VIE structure, as advised by our PRC Legal Advisor. According to our PRC Legal Advisor, we had complied with the relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Sell through E-commerce Platforms

We collaborate with e-commerce platforms, such as JD.com, to sell de-commissioned IT devices we purchase from enterprises, mainly including laptop computers. Devices displayed on these e-commerce platforms are available to the public. We typically cooperate with large-scale and well-known e-commerce platforms with a track record of selling IT related devices, and are bound by the standard terms and conditions of such e-commerce platforms. Leveraging the aggregation effect of e-commerce platforms, our enterprise users can obtain quotations and negotiate in a transparent market.

During the Track Record Period, we generated revenue of RMB302.8 million, RMB765.2 million, RMB924.4 million, RMB357.8 million and RMB632.1 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively, from our device recycling business. The following table sets forth a breakdown of our device recycling income by sales platforms in absolute amounts and as a percentage of our device recycling 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	%
Device recycling income from proprietary quotation platform	250,651	82.8	699,358	91.4	855,363	92.5	326,676	91.3	600,766	95.0
Device recycling income from e-commerce platforms	52,193	17.2	65,839	8.6	69,045	7.5	31,130	8.7	31,351	5.0
Total	302,844	100.0	765,197	100.0	924,408	100.0	357,806	100.0	632,117	100.0

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Data Removal Services

As part of their information security management, suppliers of de-commissioned devices generally remove data storage parts such as hard disk before passing such devices to us. Our recycling of such devices therefore does not involve any data removal process. Occasionally we provide data removal and destroy services at the enterprise users’ options at our venue or any venue as specified by such users, after collecting the relevant devices from the enterprise users. We are capable of removing and destroying data stored on IT devices in secure manners, including physical destruction of data storage systems. We generally provide three levels of data destruction services, including formatting hard drives, erasing all data by using services from well-known third-party service providers, and physically degauss, perforate and crush data storage media. We offer the appropriate level of data destruction service to enterprises in accordance with the enterprises’ specific needs and the service agreements. We shall abide by the data removal process and time limit as specified in the service agreement, and the enterprises in need of such services shall make timely payment. Enterprises typically set acceptance criteria to examine our work, making sure all the data is successfully removed as expected. Furthermore, both parties shall keep confidential the information obtained during the process and shall not share such information with external parties. While any data or information leakage may constitute an event of default and result in liquidated damages, we have not experienced any such data or information leakage during the Track Record Period.

During the Track Record Period, we did not generate any revenue from our data removal services.

Service Process

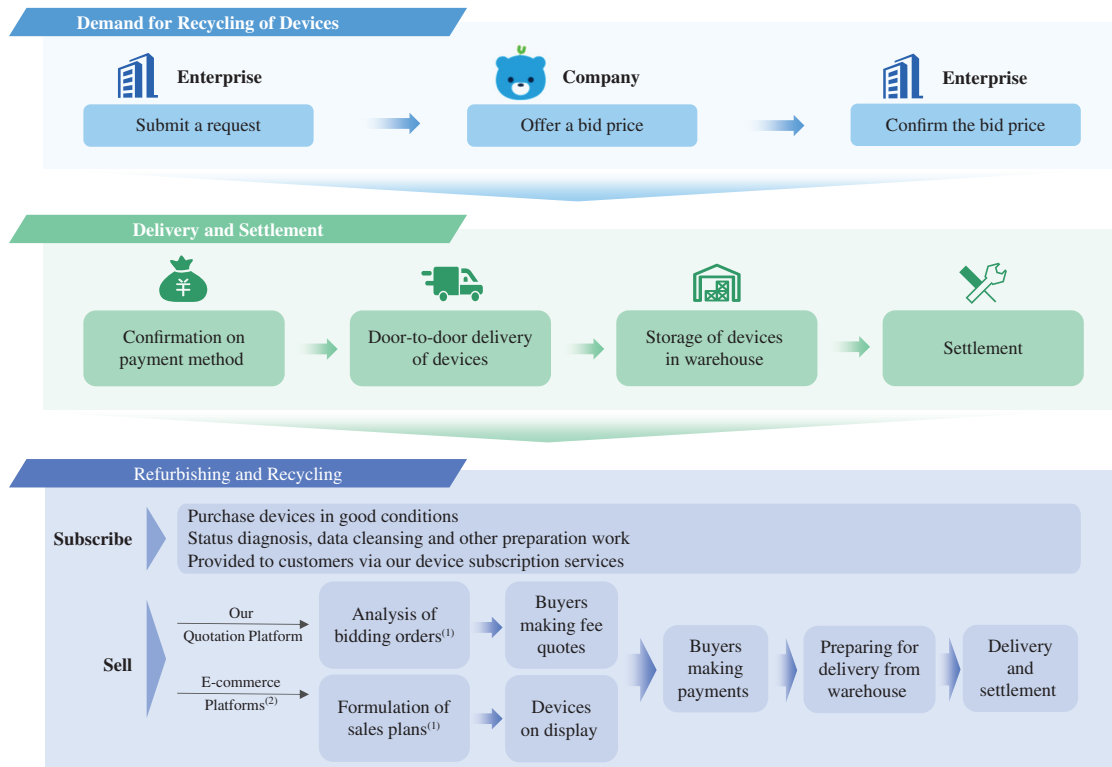
An enterprise submits a request for device recycling business. Upon receipt of the request, we offer the enterprise a bidding price considering conditions of the device, prevailing market price for similar device as well as our planned use for such device. The enterprise decides whether to sell us the device for further recycling. Once we win the bid, we purchase the device from the enterprise. For enterprises already including us in their list of pre-approved bidders, they negotiate with us directly about the key commercial terms at which particular batches of de-commissioned devices are disposed of, rather than going through the competitive bidding process. The following table sets forth our purchase amount through bidding and negotiation with enterprises as their pre-approved bidder, respectively, for the periods indicated:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
	<i>(RMB'000)</i>				
Purchase amount through bidding	161,975	149,705	351,109	53,680	67,565
Purchase amount through negotiation with enterprises as a pre-approved bidder	155,676	589,488	452,314	247,751	593,881

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We managed to ensure a stable supply of de-commissioned IT devices during the Track Record Period despite the uncertainty of replacement cycles and disposal plans of particular de-commissioned IT device suppliers. See “– Seasonality” for details. The increase in the number of our de-commissioned IT device suppliers from 277 in 2020 to 317 in 2021 and from 190 for the six months ended June 30, 2021 to 205 for the six months ended June 30, 2022 has enabled us to be less vulnerable to the changes in the disposal plans of particular suppliers. In addition, with the deepening cooperation with our de-commissioned IT device suppliers, we managed to purchase de-commissioned devices through negotiation with suppliers directly as their pre-approved bidder instead of competing in the bidding process, which provided us with more certainty for the supply of de-commissioned IT devices. Furthermore, our diversified categories of de-commissioned IT devices has reduced our risk of being affected by fluctuations in the supply of any particular types of de-commissioned IT devices. Moreover, we secured a more stable supply of de-commissioned IT devices by maintaining better relationship with our suppliers through faster settlement of payment made to our suppliers during the Track Record Period, as demonstrated by the decrease in trade payables turnover days from 61.9 days in 2019 to 50.3 days in 2020, and further to 32.7 days in 2021 and 22.5 days for the six months ended June 30, 2022.

The diagram below illustrates the process flowchart of our device recycling business:



Note:

- (1) The formulation and analysis are made based on our inventory level.
- (2) During the Track Record Period, majority of such sales were conducted through and in accordance with the terms of standard agreements adopted by JD.com’s e-commerce platforms.

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Pricing and Payment

We determine the selling price of IT devices based on our research of prevailing market price and conditions. We also take into consideration our expected gross profit margin in determining the selling prices for the devices. The customers who purchase the recycled devices put for sale typically make one-time payment in full before delivery of the purchased devices.

During the Track Record Period, we did not separately charge enterprise users for our data removal services and therefore did not generate any revenue from such services.

Key Terms of Agreement with Suppliers of De-commissioned Devices

Key terms of agreement with suppliers of de-commissioned devices are summarized below.

- *Agreement term.* Our agreement term starts from, and ends on, the dates as specified in the agreement as agreed upon by the enterprise users and us.
- *Our obligations.* We purchase the specific type of devices from enterprises as specified in the agreement, and generally make payment within five business days. We provide door-to-door pick-up services of the recycled devices. Data removal process will be provided at the request of and in the manner specified by the enterprise users at our venue or any venue as specified by such users.
- *Enterprises' warrants.* The enterprise users shall warrant that they have complete ownership and disposal rights to the recycled devices.
- *Termination.* The agreement is automatically terminated upon discharge of both parties' obligations.
- *Dispute resolution.* In the event of any dispute related to the enforcement of any agreement during our agreement term, both parties shall negotiate amicably. If an agreement cannot be reached, the parties have the right to sue.

Device Subscription Services

Overview

We provide device subscription services for enterprises varying in size and stage of corporate materiality, offering flexible, cost-effective and efficient way to deliver IT devices for enterprises' business operations. There has been an increasing demand from enterprises for subscription options compared to direct procurement of IT devices in recent years, which usually is an expensive capital expenditure and creates substantial financial pressure for enterprises. As enterprises have specific demands for IT devices at different stages of business

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development, the traditional way of one-time procurement is unable to match with their actual demands for IT devices, therefore leading to a large waste. In addition, direct purchases of IT devices do not support the flexibility provided by subscribe-as-you-use and return-as-you-go options. Our device subscription services provide enterprises with an opportunity to reduce their capital expenditure and maintain high utilization rate of IT devices.

Our device subscription services are all-inclusive, and covers the full device lifecycle for enterprises’ and their business operations. The services primarily include (i) customers selecting IT devices appropriate for their needs, (ii) assembling hardware, (iii) installing and customizing system settings, (iv) delivery and setup of IT devices on-site, and (v) migration of data from customers’ existing in-house or third-party database. We offer a comprehensive inventory of IT devices available for subscription, including, amongst others, desktop and laptop computers, mobile phones, tablet computers, all-in-one computers, printers, photocopiers, servers and conference-related and other devices. Compared with the manufacturers who can only provide devices of their own brands, our broad range of devices of a variety of brands and configurations provides our customers with greater flexibility in selecting devices suitable to them. Our customers can choose a subscription period ranging from one day to five years depending on different business purposes. For a detailed description of the subscription period of our customers during the Track Record Period, see “– Key Terms of Service Agreement” below. We also provide IT technical subscription services and device management SaaS coupled with our device subscription services during the subscription period. See “– Our Business Model – IT Technical Subscription Services” and “– Our Business Model – Device Management SaaS” in this section for further details.

We procure IT devices for our device subscription services, primarily desktop and laptop computers, mobile phones, tablet computers, all-in-one computers, printers, photocopiers, servers and conference-related and other devices, directly from top international and domestic IT device manufacturers or through their agents. Our devices for subscription are also supplemented by the de-commissioned devices that we purchase under our device recycling business. See “– Our Business Model – Device Recycling Business – Overview” for details. We have not sold any brand new IT devices, and have sold some of our used devices for subscription. We have established a general warehouse in Wuhan to store our IT devices, and have sub-warehouses in Shenzhen, Shanghai, Beijing, Guangzhou, Nanjing, Xiamen, Chengdu and Hangzhou. Our general warehouse functions as a nationwide allocation center. In case of supply shortage of IT devices, we are able to allocate the IT devices stored in the general warehouse to sub-warehouses leveraging our digital IT system. Furthermore, we store the IT devices that we purchase from corporate users from our device recycling business in our general warehouse, which is ready for subsequent refurbishment and sale. We believe that such cross-selling of IT devices among different service categories ensures a stable and sufficient inventory level of devices for our device subscription services.

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We offer long-term and short-term device subscription services to provide diversified and tailor-made services to meet the specific needs of enterprises. During the Track Record Period, we generated revenue from device subscription services of RMB82.1 million, RMB143.8 million, RMB265.6 million, RMB115.0 million and RMB150.4 million, respectively, for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

Long-term Device Subscription Services

Our long-term device subscription services are generally subscription-based, and we provide customers with IT devices for a minimum period of six months with a periodic payment plan, enabling enterprises to lessen their financial burden. We primarily target for companies engaged in new economy industries, such as e-commerce and consumer retails.

Our customers are able to enjoy deposit-free services based on their credit profile. Our “online + offline” two-dimensional risk control model integrates an online intelligent credit profile review system and an offline manual assistance mechanism. By analyzing and reviewing a customer’s payment history and credit profile, the risk control model assists us in determining the maximum value amount of IT devices a customer can have from us at a time.

In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, we generated revenue from long-term device subscription services of RMB68.4 million, RMB117.3 million, RMB217.6 million, RMB97.8 million and RMB123.2 million, respectively. During the same periods, the number of long-term device subscription customers who also subscribed IT technical subscription services amounted to 4,713, 5,599, 7,268, 5,255 and 8,107 in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively, contributing a total income of RMB131.7 million, RMB162.1 million, RMB253.5 million, RMB106.5 million and RMB144.7 million during the same periods, respectively.

Short-term Device Subscription Services

Our short-term device subscription services are one-time packages with comprehensive DLM solutions tailored based on our customers’ needs. It typically caters to enterprises in need of flexibility with short-term equipment needs, such as offline large-scale examinations, exhibitions, technology conferences, shopping festivals and other business activities. Our on-site IT operation and maintenance team helps with the network set up, protection of devices during use, on-site maintenance and repairment in case of device failures, and timely retrieval of devices upon completion of use.

In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, we generated revenue from short-term device subscription services of RMB13.7 million, RMB26.5 million, RMB48.0 million, RMB17.2 million and RMB27.2 million, respectively. During the same periods, the number of short-term device subscription customers who also subscribed IT technical subscription services amounted to 3,901, 3,714, 4,074, 2,558 and 2,343 in 2019, 2020

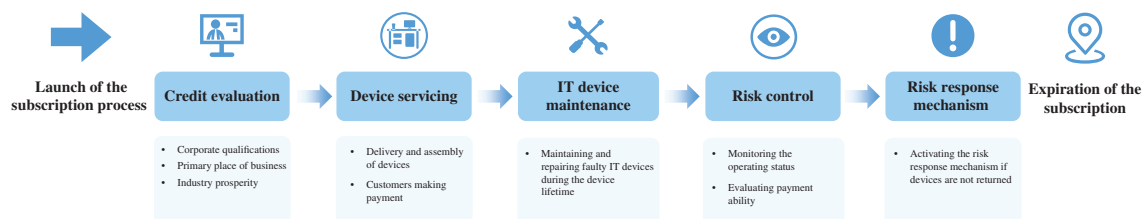
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and 2021 and for the six months ended June 30, 2021 and 2022, respectively, contributing a total income of RMB47.7 million, RMB51.4 million, RMB69.4 million, RMB27.8 million and RMB27.3 million during the same periods, respectively.

Service Process

Our potential customer leads are generally developed by our salespersons, advertisements or user registrations through our official website portal. Once we receive service requests from potential customers, we evaluate their credit profile with the assistance of our risk control model, taking into account factors including corporate qualifications, primary place of business and industry prosperity, among others. Customers then enters into a service agreement and places an order online, followed by a review of the order by our business operations department. Upon completion of review and approval, we recommend types of devices and subscription plans that match with the customer’s needs, and complete delivery and assembly of devices. We also conduct a second review of the customer’s credit profile on-site. Our technical staff pays monthly visits to our customers to supervise the use of devices as well as maintain and repair faulty devices. During the subscription period, we constantly monitor the operating status of our customers to evaluate their ability to pay. If customers do not make timely payments, we will activate our offline risk response mechanism pursuant to which we will carry out steps, including reducing the amount of credit available to the relevant customers, account manager making reminder calls, and IT technicians retrieving the devices from the customers in accordance with the service agreement. When the subscription period of a customer comes to an end, the relevant devices will be retrieved from the customers. Before delivery to customers under another device subscription agreement, our IT technicians will inspect the retrieved devices and carry out the required refurbishment and data removal process to ensure (i) the devices can function in accordance with requirements set out in the device subscription agreement, and (ii) data generated by the previous customers are removed.

The diagram below illustrates the process flowchart of our device subscription services:



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Pricing and Payment

Pricing Strategy and Fee Model

Long-term Device Subscription Services

We take into consideration multiple factors when determining the subscription price for our long-term device subscription services, which primarily include devices’ purchase costs, their market prices, depreciation and residual value, operating expenses and financing costs. The subscription term selected by a customer also plays an important role in pricing. We do not apply different pricing strategies for customers subscribing brand new devices, used devices or devices procured from our device recycling business. However, the age of the devices as well as the corresponding depreciation policies may affect the devices’ costs, and thus affect the subscription price for such devices.

Our fee model for long-term device subscription services utilizes specific parameters and outputs a fee amount as a reference. During the Track Record Period, our average subscription price of major devices generally ranged from RMB69 to RMB449 per month (including device and IT technical subscription prices) depending on different types of devices and their brands, configurations and models.

Short-term Device Subscription Services

We consider the complexity of specific solutions, types and configurations of devices involved as well as labor costs of on-site IT technical staff in setting the price for our short-term device subscription services. In the scenario of offline large-scale examinations where our customers are the organizers of examinations, we arrange and pay for examination venues as well as temporary staff for our customers. Rentals for examination venues and wages of temporary staff paid are charged to our cost of sales. Our service fees for offline large-scale examinations will also reflect such rentals and wages paid. In other scenarios such as exhibitions, conferences and shopping festivals where our customers are the participating enterprises, rather than the organizers, we do not pay for rentals of venues and wages for temporary staff as these will be paid by organizers of the relevant events.

We generally charge our short-term device subscription service customers one-time service fees.

Deposit and Payment

Our long-term and short-term device subscription customers make payment differently. A majority of our long-term device subscription customers make monthly payments of subscription fees. We require our customers to pay full deposit or part of the deposit within the

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total amount of the subscribed IT devices together with the first payment of subscription fee. Our customers may apply for any reduction or waiver on such deposit, and then we will, based on customers’ credit profile, to exercise discretion on reducing or waiving the amount of the deposit.

Our short-term device subscription service customers generally pay part of the service fees upon signing of agreements, with the remaining amount of service fees payable at the end of the service period. For large-scale short-term device subscription scenarios that require us to invest in a great deal of preparation work such as allocating devices from different warehouses, we request our customers to make prepayments equal to no less than 30% of the total order amount upon signing of agreements. In cases of urgent scenarios upon short notices, we may allow our customers to make payments within seven days upon receipt of the subscribed devices, taking into consideration the time needed for our internal approval process.

Key Terms of Service Agreement

Key terms of our device subscription service agreement are summarized below.

- *Service term.* We provide flexible service terms, generally on a monthly basis for a minimum period of six months for long-term device subscription services, and a daily basis for short-term device subscription services. The term starts from the date specified in a separate order or the day after customers receive the devices, whichever is later, and ends on the date as specified in the order. The service term will be automatically extended upon expiration of the original term if the devices are not returned by the customer, under which circumstance the extended term, subscription fees and number of subscribed devices remain unchanged.

During the Track Record Period, the service term of our long-term device subscription services ranged from six months to five years, the prevailing of which ranged from 12 months to 36 months. Specifically, our long-term device subscription period was on an average of 1.6 years in 2019, 1.9 years in 2020, 2.0 years in 2021, 2.0 years for the six months ended June 30, 2021 and 2.1 years for the six months ended June 30, 2022. During the same periods, the service term of our short-term device subscription services ranged from one day to six months, the prevailing of which were less than three months. Specifically, our short-term device subscription period was on an average of 43 days in 2019, 54 days in 2020, 56 days in 2021, 58 days for the six months ended June 30, 2021 and 59 days for the six months ended June 30, 2022.

- *Our obligations.* We provide subscription services as specified in a separate work order. In accordance with such order, we provide door-to-door delivery of the subscribed devices or ship the devices to our customers at our expenses. We assist our customers to finish set-up of devices, and provide guidance to our customers’ in-house IT personnel. We abide by our customers’ internal technical and service standards during our service process.

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- *Customers’ obligations.* Our customers are obligated to provide authentic and effective certificates, licenses and other materials, and make timely payments. Customers cannot alter the use of the subscribed devices from their original use, or apply the devices for illegal purposes. Customers are also obligated to make compensation for any deliberated damage or loss of the devices. Any depreciation and depletion arising out of the normal business use of the devices shall not be deemed as our customers’ liability.
- *Termination.* The service agreement may be terminated by the customers if we fail to deliver the subscribed devices as agreed upon or deliver the devices within the specified timing. The service agreement may be terminated by us if the customers (i) fail to pay us within the specified timing; or (ii) relocate the devices without our written consent. Upon termination of the agreement, the defaulting party shall make compensation to the other’s loss, if any.
- *Dispute resolution.* In the event of any dispute related to the enforcement of any agreement during our service term, both parties shall negotiate amicably. If an agreement cannot be reached, the parties have the right to sue.

IT Technical Subscription Services

Overview

Traditionally, enterprises rely on their in-house IT teams to manage and keep up regular service of their internal IT operations, which may be costly to establish and maintain in the long term. In addition, the skill level and educational background of individual IT technicians often vary, who may not be familiar with corporate-specific types and configurations of IT devices.

We help alleviate financial burden of enterprises through our professional IT technical subscription services. We address IT issues of enterprises in different business scenarios and provide customized and professional IT maintenance services that improve the utilization rate of IT devices. Our IT technical subscription services, coupled with our device subscription services, primarily include periodic on-site inspection and maintenance of subscribed devices, resolving hardware related problems and implementing operating system upgrades to ensure IT devices are up-to-date. We are not engaged in any kind of software installation or upgrading, which will be handled by enterprises themselves. Enterprises can also opt to purchase our IT technical subscription services on a standalone basis, pursuant to which our IT technicians will station at the enterprises to provide technical support. We also offer project-based IT technical services, pursuant to which customized on-site services will be provided according to enterprises’ needs.

In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, we generated revenue from IT technical subscription services of RMB115.4 million, RMB113.1 million, RMB140.4 million, RMB64.1 million and RMB71.5 million, respectively. We

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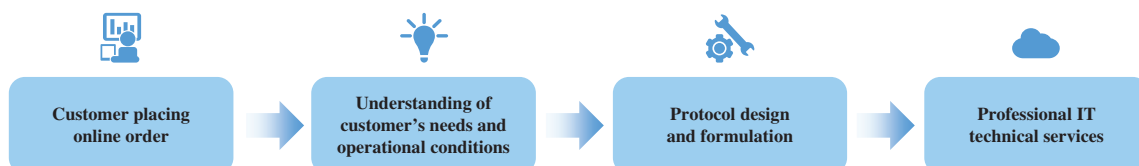
primarily provide IT technical subscription services coupled with our device subscription services. The relevant subscription agreements separately set out details of devices and IT technical services subscribed for as well as the subscription fees charged for devices and IT technical services. Our revenue from IT technical subscription services provided together with our device subscription services amounted to RMB108.9 million, RMB106.7 million, RMB133.2 million, RMB60.1 million and RMB69.1 million, respectively, for 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022. However, some large enterprises purchasing our device subscription services may satisfy their needs for IT technical support entirely in-house and thus opt out the IT technical subscription services, under which circumstance we only provide them with device subscription services. We generated RMB6.5 million, RMB6.4 million, RMB7.2 million, RMB4.0 million and RMB2.4 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively, from customers who purchased our IT technical subscription services on a standalone basis.

As of the Latest Practicable Date, our IT technical team consisted of more than 220 members, led by our experienced team leaders. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the average monthly IT technical subscription revenue contributed by each of the 177, 202, 223, 207 and 239 IT technicians amounted to RMB54,336, RMB46,669, RMB52,463, RMB51,745 and RMB49,880, respectively.

Service Process

We offer a variety of IT technical subscription services to our customers depending on the subscribed service package, including coupled with long-term or short-term device subscription services or stand-alone IT technical subscription services. Under IT technical subscription services coupled with device subscription services, our customers can report to us any problem with devices subscribed through phone call or online through *Bear Butler*. Our IT technicians generally respond immediately to reports received through phone calls or respond within 30 minutes for reports received on *Bear Butler*. Our IT technicians generally provide guidance remotely through phone calls to assist customers on their IT issues. For failures that cannot be solved remotely, our IT technicians arrive on-site within four hours and provide repairment and maintenance services. Under our stand-alone IT technical subscription services, our IT technicians stationed at enterprises will design and formulate a protocol upon understanding and discussing the customer’s specific needs for technical support. We provide tailor-made, professional IT operation and maintenance services in accordance with the service agreement.

The following diagram illustrates the process flowchart of our stand-alone IT technical subscription services:



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Pricing and Payment

When the IT technical subscription services are provided coupled with our device subscription services, we only determine the subscription price of our services as a package.

With respect to IT technical subscription services provided on a standalone basis, the service fees vary in accordance with the complexity of services, which depends on the number of devices and IT technicians involved to provide the IT support requested by our customers. To meet our customers’ specific needs, we assign IT technicians of different seniority and level of experience, resulting in different service fees that range from RMB500 per IT technician per day, to RMB8,000 to RMB12,000 per IT technician per month, as the subscription fee for on-site IT technical support. For project-based IT technical services, we determine the service fee primarily based on the number of devices covered.

Our IT technical subscription service customers on a standalone basis typically make one-time payment.

Key Terms of Service Agreement

For customers purchasing device subscription services coupled with IT technical subscription services, we enter into a device subscription service agreement which sets out provisions with respect to the provision of IT technical support as agreed upon by our customers and us. For example, we assist our customers to set up and customize operating system settings, and provide guidance to our customers’ in-house IT personnel. See “– Our Business Model – Device Subscription Services – Key Terms of Service Agreement.”

Key terms of the standalone IT technical subscription service agreement are summarized below.

- *Service term.* Our service term starts from, and ends on, the dates as specified in the standalone IT technical subscription service agreement as agreed upon by our customers and us. In addition, fees for devices and IT technical services are separately set out in contract with customers under both long-term and short-term device subscription services.
- *Our obligations.* We provide IT technical support and related services as specified in the standalone IT technical subscription service agreement.
- *Customers’ obligations.* Our customers are obligated to make timely payments, and are responsible for the confidentiality, maintenance and record-keeping of important corporate data and information.
- *Termination.* The service agreement is automatically terminated upon discharge of both parties’ obligations.
- *Dispute resolution.* In the event of any dispute related to the enforcement of any agreement during our service term, both parties shall negotiate amicably. If an agreement cannot be reached, the parties have the right to sue.

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Device Management SaaS

Overview

Our device management SaaS, a professional device management software that facilitates cloud-based IT device management, is at the core of our business and can help enterprises manage their IT devices on a one-stop platform with a broad spectrum of device management functionalities. Traditionally, enterprises monitor, manage and supervise the status and usage of their IT devices manually. For large enterprises operating at multiple locations and IT devices scattered across different offices, it is generally more difficult for enterprises to manage their IT devices, which may adversely affect their operational efficiency. Our device management SaaS enables enterprises to identify connections between specific users and specific devices by generating timely overviews of their IT device utilization status, facilitating enterprises to make more insightful decisions on their IT operations. Typically, enterprises with more than 200 employees are our major target customers, as such enterprises usually have needs in device management due to the corporate size.

We primarily provide device management SaaS through our proprietary software, *Bear Butler*. It facilitates asset counts, device assignment, allocation and return, and issues reporting and upgrades requests through a cloud-based centralized application. *Bear Butler* is operated on a third party’s public cloud. We generally follow the cloud service provider’s data privacy policies, including (i) storing the data in its place of source, i.e. PRC, (ii) taking measures to maintain the confidentiality of the data, such as encryption and authorized access, (iii) establishing strict process to protect data security, such as only granting access to limited personnel and conducting periodic audit, and (iv) activating emergency plans to minimize the spread in case of data leakage.

Bear Butler

Bear Butler facilitates enterprise users to internally manage the acquisition, allocation, repairment, maintenance and disposal of IT devices owned by users or provided by us in an easy and efficient manner. All enterprise users registered on *Bear Butler* enjoy a free trial account, and can upgrade to paid versions in accordance with user-specific needs. As of December 31, 2019, 2020 and 2021 and June 30, 2022, 13,937, 18,162, 24,779 and 27,951 corporate customers had registered on *Bear Butler*, respectively, comprising 13,582, 37,568, 325,563 and 678,647 active users⁽¹⁾, respectively. The registered corporate customers include not only our device subscription customers, but also non-subscribers. As of the same dates, the number of registered corporate customers who were also our device subscription customers amounted to 801, 2,152, 4,638 and 6,611, respectively, and the non-subscribers among our registered corporate customers were 13,136, 16,010, 20,141 and 21,361, respectively.

(1) Active users represent the individual employees with the registered corporate customers who hold an individual user account on *Bear Butler*. The number of active users with individual user account in 2019 was less than the number of registered corporate customers in 2019 as our *Bear Butler* was at a preliminary stage since we launched the SaaS program in the preceding year.

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According to CIC, *Bear Butler* is the only comprehensive one-stop SaaS platform in China’s DLM market with comprehensive coverage over major aspects of enterprises in device management from warehousing, deployment, asset counting, maintenance to disposal and recycling. It is an easy-to-use and multi-functional device management tool featuring the following characteristics and functions:

- *One-click synchronization.* *Bear Butler* is able to be integrated with a variety of office systems, including OA, ERP and HR systems commonly used by enterprises, through a standard interface. An automatically synchronized firm-wide organizational hierarchy from users’ existing WeCom (企業微信) or DingTalk (釘釘) is also available. Enterprises can upload their data and information through one click, making it convenient to manage device assets and allocation.
- *Self-serving inventory check.* Once the inventory check is initiated by the administration department of an enterprise, its employees can conduct the inventory check and confirm or manage through the user interface on the *Bear Butler* application. This process can be completed in a fast, accurate and efficient manner, and avoids loss of office assets due to the mistakes caused by manual counts.
- *Availability on multiple platforms.* *Bear Butler* allows access through multiple platforms, including website portal through PC, iOS and Android portals through smartphones, WeChat mini-program and DingTalk. This versatility allows users to work freely and remotely any time, anywhere.
- *Multi-dimensional device management.* Enterprises are able to manage IT devices used in their business operations through various functions on *Bear Butler*, including asset counts, consumables examination, financial management and overall management.

As of the Latest Practicable Date, we offered four kinds of accounts on *Bear Butler*, namely, free trial, basic, advanced and premium. The table below shows the differences in functions of each account:

	Free trial account	Basic account	Advanced account	Premium account
No. of IT devices under management	100	500	2,000	Unlimited
No. of subsidiary(ies) linked	1	1	Unlimited	Unlimited
No. of administrator(s)	1	5	Unlimited	Unlimited
Annual fee (RMB)	N/A	998	2,999	4,999

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Since the inception of our device management SaaS in 2018, we have been optimizing and customizing the functions and user interface on *Bear Butler*. During the Track Record Period, three enterprise customers chose to subscribe for the services of *Bear Butler* under the advanced account, generating revenue of less than RMB10,000 in aggregate, as the services under the free trial account (in terms of numbers of (i) devices under management, (ii) subsidiaries linked and (iii) administrator) could no longer satisfy their demand. As most of our enterprise customers currently choose to use free trial account, we did not record any revenue and, accordingly, did not record any costs from our device management SaaS during the Track Record Period. Considering (i) the increasing popularity of our device management SaaS, as evidenced by the rise in registered corporate customers from 13,937 as of December 31, 2019 to 27,972 as of June 30, 2022, and (ii) that it helped us strengthen our services and acquire customers, we intend to upgrade and enhance the functionalities of our device management SaaS by introducing features such as IoT technology and intelligent inventory counts to cover more business and application scenarios for enterprises to manage the full lifecycle of fixed assets. While we only generated an insignificant amount of revenue from our device management SaaS 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. We expect more enterprise customers will become paying users of our device management SaaS with more devices they have to manage when their business grow.

Service Process

Our device management SaaS is displayed on the *Bear Butler* interface to alert customers seeking assistance in device management. The responsible personnel of an enterprise registers on *Bear Butler* as an administrator, and the employees of the enterprise can separately register as individual users. Once customers register as a *Bear Butler* user, their *Bear Butler* account is bound with their device subscription services account, if any. Customers can then upload the information of the devices they would like to manage using *Bear Butler*, regardless those devices are provided by us through our device subscription services or in-house devices, and use *Bear Butler* to assign, allocate and return devices, report for IT device failures and request for maintenance and repairment, and perform asset counts.

The following diagram illustrates the process of registering and using *Bear Butler* to digitally manage subscribed or self-owned IT devices:



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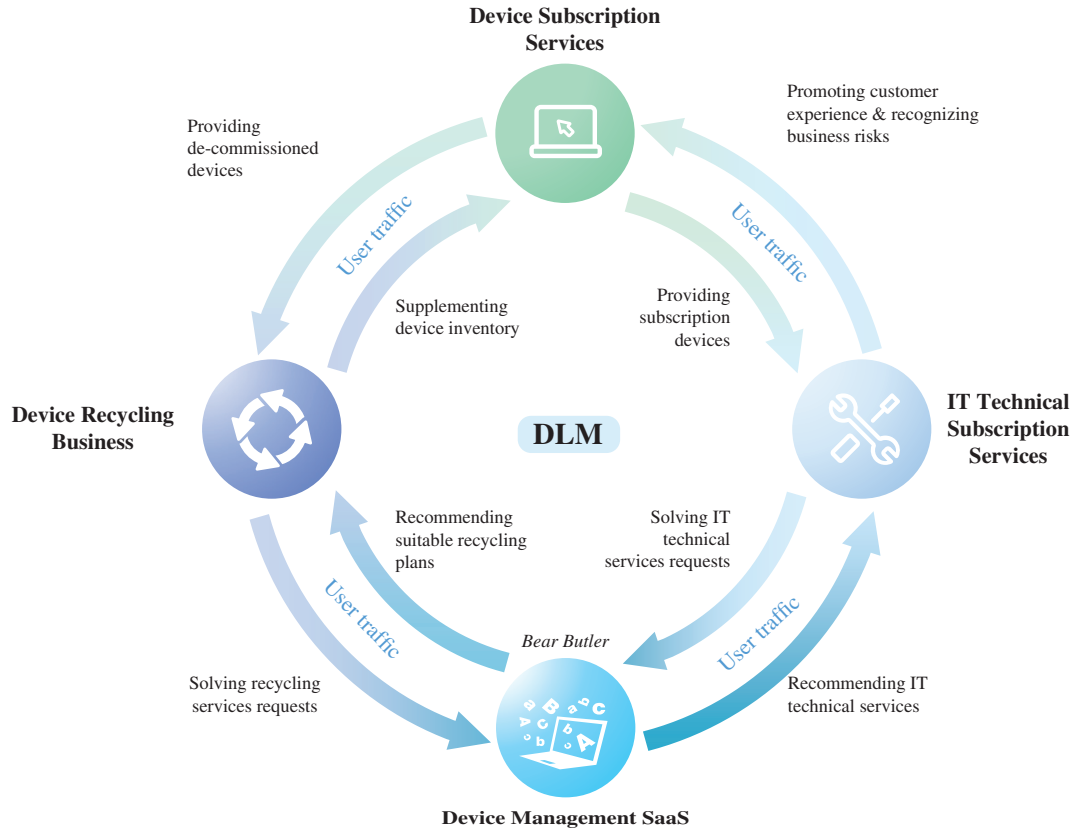
Synergies among Our DLM Solutions

Synergies exist among our different service categories of our DLM solutions, leading to strong revenue growth during the Track Record Period. The use of devices across our different service scenarios has increased the IT device utilization rate and strengthened our business growth while promoting green economy and shared economy. For example, the utilization rate of IT devices has increased due to their deployment in multiple business scenarios, such as our long-term and short-term device subscription services. Our IT technical subscription services together with device management SaaS enable enterprise users to maintain and manage a pool of IT devices without hiring a team of IT professionals in-house. Moreover, our 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. In addition, our device management SaaS provides cross-selling opportunities as our *Bear Butler* automatically identifies IT device depreciation and recommends to enterprise users suitable IT device recycling plans. It also recommends device subscription services or IT technical subscription services to enterprises in need of new IT devices and device maintenance or repairment, respectively.

We typically target large-scale enterprises as our suppliers of de-commissioned devices, some of which are our strategic Shareholders and business partners. Our cooperation with them are crucial to our device recycling business. As such, we intend to deepen our cooperation with our strategic Shareholders and business partners through broadening our online user traffic and marketing and promotion activities. In addition, we intend to strengthen our operational management capabilities throughout device lifecycle, in particular our abilities to refurbish and maintain de-commissioned devices, which can help improve the overall operational efficiency and extend the useful lives of devices. We plan to strengthen our revenue and business growth by broadening our customer base and service categories in core cities and their CBDs.

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The following diagram illustrates the synergies among our DLM solutions:



BUSINESS SUSTAINABILITY

We incurred net liabilities, net current liabilities and net losses during the Track Record Period, primarily because the DLM industry in China is at its early stage and we have made substantial investments to expand our customer base and drive the growth of our business, which we believe are indispensable to establish compelling competitive advantages for the long-term development of our business. In addition, we adopted the employee incentive plans, including LX Brothers Employee Incentive Plan, Beauty Bear Employee Incentive Plan on March 23, 2022, April 1, 2022 and April 1, 2022, respectively, resulting in expenses associated with share-based payments for the year ending December 31, 2022. Our future profitability is uncertain and subject to various factors, including our ability to effectively monetise our product and service offerings and continuously grow revenues in a cost-effective way by improving our operational efficiency. **Despite our continued increase in customer base, we may continue to incur net losses in the foreseeable future. We expect to record net loss for 2022 as a result of (i) fair value loss attributable to financial liabilities at FVTPL arising from investments by our Pre-[REDACTED] investors, which were mainly driven by the increased valuation of our Company, (ii) share-based compensation expenses in relation to employee incentive plans adopted in 2022, and (iii) [REDACTED]. We expect to return**

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to or become consolidated net asset position following the conversion of preferred shares held by our Pre-[REDACTED] investors into ordinary shares upon [REDACTED]. However, we may turn to net liabilities position if our profitability further deteriorates.

We consider that our substantial investment to provide more diversified service offering to customers and expand our customer base, which incurs higher expenses in the short-term, is essential for a solid foundation for our long-term success. We witnessed strong and robust growth in our business operation and financial condition during the Track Record Period. 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, and from RMB536.9 million for the six months ended June 30, 2021 to RMB854.0 million for the six months ended June 30, 2022, as all our service lines demonstrated fast growth. During the Track Record Period, the number of de-commissioned IT devices sold were 151,155 in 2019, 598,685 in 2020 and 857,118 in 2021, and increased from 202,701 for the six months ended June 30, 2021 to 472,682 for the six months ended June 30, 2022. The number of devices for subscription were 231,505 as of December 31, 2019, 347,951 as of December 31, 2020 and 455,357 as of December 31, 2021, and further increased to 488,993 as of June 30, 2022. The total device subscription volume were approximately 1.9 million in 2019, approximately 2.8 million in 2020 and approximately 4.2 million in 2021, and increased from approximately 1.9 million for the six months ended June 30, 2021 to approximately 2.2 million for the six months ended June 30, 2022. The total IT technical service subscription volume were approximately 1.2 million in 2019, approximately 1.8 million in 2020 and approximately 2.7 million in 2021, and increased from approximately 1.2 million for the six months ended June 30, 2021 to approximately 1.5 million for the six months ended June 30, 2022. We intend to improve our profitability by continuously increasing revenue and enhancing operational efficiency, particularly by way of: (i) expanding our customer base and market share in core regions; (ii) increasing revenue per customer through cross-selling among our service lines and device categories; and (iii) further enhancing our operational efficiency and reducing marginal costs. With our improving profitability, we also expect our operating cash flow to improve concurrently.

Our Strategy to Improve Profitability

We have more than 10 years of operating history in the DLM industry in China since our inception in 2004. According to CIC, we are the first company in China to have built a multi-scenario and closed-loop DLM business model. Our closed-loop DLM business model has been continuously optimizing and become the foundation of our development. During the Track Record Period, our adjusted EBITDA, which is a non-IFRS measure, reached RMB36.9 million, RMB164.5 million and RMB224.0 million for the years ended December 31, 2019, 2020 and 2021 respectively, representing a CAGR of 146.6%; and increased by 15.4% to RMB127.5 million for the first half-year of 2022 from RMB110.5 million for the same period in 2021. For details, please see “Financial Information – Non-IFRS Measure.” Our net cash generated from operating activities amounted to RMB58.7 million, RMB109.9 million and RMB278.8 million for the years ended December 31, 2019, 2020 and 2021 respectively, representing a CAGR of 117.9%. Our net cash generated from operating activities amounted to RMB192.9 million for the six months ended June 30, 2022.

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While we have achieved gross profit and net operating cash inflow during the Track Record Period, 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. Our loss-making performance in 2019, 2020, 2021 and for the six months ended June 30, 2021 was primarily attributable to (i) fair value 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, attributable to financial liabilities at FVTPL arising from investments by our Pre-[REDACTED] investors, 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, driven by our business expansion.

China’s DLM market is still at its early stage of development. According to the CIC report, the penetration rate of China’s DLM industry was below 5%, with a market size of RMB34.5 billion in 2021. The market size of China’s DLM industry is expected to reach approximately RMB138.2 billion in 2026 at a CAGR of 32.0% from 2021. In 2021, our market share (in terms of revenue) was approximately 3.9%, which is higher than the aggregate market share of other four market players among China’s top five DLM solution providers, according to the CIC Report. We have achieved a closed-loop DLM business model covering all service types and business scenarios along the DLM value chain, including device recycling business, long-term and short-term device subscription services, IT technical subscription service and device management SaaS. Meanwhile, we have been actively expanding our categories of device for subscription to meet customers’ demands in various office scenarios. In 2021, the Company has become the DLM solution provider with the most subscribed device categories in China’s DLM market, as illustrated below:

Company name	DLM by service type				Device subscription by business scenario		Device subscription by device category					
	Device recycling	Device subscription	IT technical subscription	SaaS	Long-term	Short-term	PC	Printer	A3 printer	Server	Interactive conference board	Projector
Our Company	√	√	√	√	√	√	√	√	√	√	√	√
Ediaryun Limited (易點雲有限公司)	√	√	√	√	√	None	√	None	None	None	None	√
Benlizu (本立租)	√	√	√	None	√	√	√	√	√	None	None	√
Aiterent (艾特租)	√	√	√	None	√	√	√	√	√	√	None	√
Slease (閃租網)	None	√	√	None	√	√	√	√	√	None	√	√

Source: independent research conducted by CIC which includes interviews with industry players and research on public information available on websites of the companies mentioned above

Capitalizing on our market position and closed-loop DLM business model, we believe our customer base and multifaceted management capabilities enable us to grasp the opportunities and capture the future growth of the rapidly developing but underpenetrated DLM market in China.

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We had strategically increased our distribution and selling expenses during the Track Record Period. From 2019 to 2021, our revenue grew at a CAGR of 63.1%, while the total number of device subscriptions and the number of long-term device subscription customers grew at a CAGR of 49.9% and 40.7%, respectively. Despite our continued increase in revenue, we may continue to incur net losses in the foreseeable future, including the year ending December 31, 2022, if our revenue growth cannot outpace the growth in our cost of sales, operating expenses and finance costs. From 2019 to 2021, CAGR of our total revenue amounted to 63.1% while CAGR of our costs of sales, operating expenses and finance cost amounted to 64.5%, 17.2% and 73.9%, respectively. Furthermore, our total revenue increased by 59.1% for the first half-year of 2022 compared to the same period in 2021 while our costs of sales, operating expenses and finance cost increased by 71.6%, 46.3% and 50.9%, respectively. Please see “Risk Factors – Risks Relating to Our Business and Industry – We have incurred accumulated losses and net losses during the Track Record Period” for details.

We expect to improve our profitability by continuously increasing revenue and enhancing operational efficiency, particularly by way of: (i) expanding our customer base and market share in core regions; (ii) increasing revenue per customer through cross-selling among our service lines and device categories; and (iii) further enhancing our operational efficiency and reducing marginal costs.

Expand our customer base and market share in core regions

The numbers of customers and devices for subscriptions are crucial to our business growth. For example, our long-term device subscription customers increased from 5,068 in 2019 to 10,030 in 2021 at a CAGR of 40.7% and increased by 64.5% to 9,966 in the first half-year of 2022 from 6,058 in the same period last year. Our devices available for subscription increased from 231,505 as of December 31, 2019 to 455,357 as of December 31, 2021 at a CAGR of 40.3% and increased further to 488,993 as of June 30, 2022. Our growing numbers of customers and devices for subscription are expected to drive our revenue growth.

We intend to expand our customer base and market share in core regions as follows –

Upgrading our system infrastructure and further penetrating into core cities

We attract new customers primarily through direct sales efforts and rely on face-to-face marketing, among others. Our revenue per sales and marketing staff has increased from RMB1.4 million in 2019 to RMB4.1 million in 2021 at CAGR of 74.0% and further increased by 14.9% from RMB1.9 million for the six months ended June 30, 2021 to RMB2.1 million for the same period in 2022 due to the expansion of sales and marketing team. We plan to strengthen the marketing capabilities and efficiency of our sales and marketing staff (measured in terms of revenue per head) via continuously upgrading our system infrastructure, which will be achieved through hiring more research and development staff including system developers and data analysts. In particular, we intend to further develop our visual data panel, which forms

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part of our customer relationship management (CRM) system, and our intelligent device recommendation platform, which forms part of our device management system, aiming at facilitating our sales and marketing staff to better identify customer needs and satisfy such with suitable devices.

We intend to further penetrating into core cities by hiring (i) sales and marketing staff familiar with local market and enterprises therein, and (ii) IT technical engineers to improve our technical service capabilities and address customer demand in a more responsive manner. While we have been primarily targeting customers from new economy industries, we also intend to expand our coverage of customers from traditional economy industries such as manufacturing, enabling digital transformation of their operations.

Deepen cooperation with strategic Shareholders and business partners as well as other e-commerce platforms

We intend to deepen our cooperation with our strategic Shareholders and business partners as well as other e-commerce platforms in the following aspects:

Online user traffic: increasing the connection points at the service platforms of our strategic Shareholders (such as promoting our services at front pages of their different service offerings and prioritizing our services in their search engines) where potential customers can have access to our services. We currently display service on the platforms of Tencent and Lenovo, our strategic Shareholders and business partners, to divert and increase customer traffic to our website. In addition, we have co-developed customer service portals zl.jd.com and zulin.jd.com in cooperation with JD.com, our strategic Shareholder and business partner, on the homepage of JD.com’s e-commerce platform, allowing enterprise customers of JD.com to access and subscribe to our DLM solutions and complete the transaction via these portals directly. Our strategic Shareholders and business partners are willing to direct customer traffic to us, as they are able to expand their outreach of business to include providing DLM solutions to small and medium-sized enterprises in China. In addition, they can expand their customer base and enhance their market share of sales of devices by cooperating with DLM solution providers like us. We intend to pursuit similar cooperation with other third-party online platforms and third-party business partners to broaden our online customer acquisition channels in a cost efficient manner. For more details, please see “Future Plans and Use of Proceeds – Use of Proceeds” in this document.

For example, during the Track Record Period, revenue contributed by customers acquired through one of our strategic Shareholders, JD.com, amounted to RMB4.4 million, RMB12.3 million, RMB36.9 million and RMB23.3 million, representing 0.9%, 1.2%, 2.8% and 2.7% of our total revenue in 2019, 2020, 2021 and for the six months ended June 30, 2022, respectively. During the Track Record Period, the number of device subscription customers introduced to us through JD.com increased from 75 in 2019 to 174 in 2020 and further to 2,334 in 2021. For the six months ended June 30, 2022, we secured 2,129 device subscription customers through JD.com. Our revenue sharing arrangements with our strategic Shareholders and business partners are reflected in the form of customer acquisition expenses. The customer acquisition

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expenses attributable to JD.com were generally within 5% of the revenue attributable to customers referred to us during the Track Record Period. The customer acquisition expenses attributable to Lenovo were 5% of the revenue attributable to customers referred to us for long-term device subscription services and 10% for short-term device subscription services during the Track Record Period. While we incurred no expenses regarding on revenue sharing arrangements with Tencent during the Track Record Period, a fixed amount was paid to Tencent for being its designated business partner in respect of office equipment solutions. According to CIC, such arrangements are in line with the market terms. Our strategic Shareholders and business partners normally direct customer traffic to us when we serve different customer groups. According to CIC, our arrangements with the strategic Shareholders and business partners are in line with industry norm and the terms are marked to market, as most companies would choose to build up strategic partnerships with top internet companies in order to leverage their platform advantages to acquire customer traffic.

Marketing and promotion: participating in offline marketing activities of our strategic Shareholders and business partners to develop new corporate customers and designing solutions such as trading in old devices for new ones (以舊換新) together with our strategic Shareholders and business partners to promote our device recycling and subscription businesses. For example, as part of our offline marketing initiatives, we plan to conduct face-to-face large corporate client visits with the regional account managers of our strategic Shareholders and business partners to improve referral rates. One of our strategic Shareholders and business partners, has authorized us to promote its conferencing solutions nationwide in the PRC and agreed to provide us with required support. Our cooperation with our strategic Shareholders and business partners would enable us to develop our subscription services for categories other than laptops and is expected to drive the growth of our subscription revenue.

Supply of de-commissioned devices: our strategic Shareholders and business partners generally prioritize us when considering service providers in disposing of their de-commissioned devices, given our proven track record in device recycling business as well as our cooperation with them. We are therefore in a better position to secure a stable supply of quality de-commissioned devices, which is the key to the development of our device recycling business. During the Track Record Period, our sales volume for device recycling business increased from 151,155 in 2019 to 598,685 in 2020 and further to 857,118 in 2021, and increased from 202,701 for the six months ended June 30, 2021 to 472,682 for the six months ended June 30, 2022. During the Track Record Period, our average revenue per device recycling customer increased from RMB252,791 in 2019 to RMB722,566 in 2020 and further to RMB839,608 to 2021, and increased from RMB682,835 for the six months ended June 30, 2021 to RMB1,060,598 for the six months ended June 30, 2022. As we continue to secure stable supply of de-commissioned devices, we expect our average revenue per device recycling customer will continue to grow in line with increasing customers’ stickiness.

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Increase revenue per customer through cross-selling among our service lines and device categories

We intend to increase the revenue per customer by promoting cross-selling among our service lines and device categories. Specifically, our device subscription customers generally adopt our subscription services in a gradual manner, i.e. purchasing majority of their devices with rest of their required devices supported by our device subscription services. When their purchased devices approach end of useful lives, these customers will engage us to dispose of the de-commissioned devices and enter into subscription agreement for more devices. Customers that engaged us in both device subscription services and IT technical subscription services increased from 8,079 in 2019 to 8,933 in 2020, and further increased to 10,965 in 2021. Revenue per customer that engaged us in both subscription services increased from approximately RMB23,000 in 2019 to RMB26,000 in 2020, and further increased to RMB30,000 in 2021. For the six months ended June 30, 2021 and 2022, the number of customers that engaged us in both device subscription services and IT technical subscription services increased from 7,568 to 10,162. Revenue per customer that engaged us in both subscription services decreased from approximately RMB18,000 for the six months ended June 30, 2021 to RMB17,000 for the six months ended June 30, 2022. We also intend to increase our cross-selling opportunities by promoting our device recycling business to our existing device subscription customers and identifying business needs of device disposal of our customers, especially large corporate customers whom we have maintained long-term business relationships with.

In addition, we plan to increase revenue by promoting subscription for device categories other than laptops (including notebooks, desktops, servers, printers, and large conference screens). We intend to promote the above cross-selling via (i) introducing the updated and latest device models on its platforms from time to time, (ii) offering discount to customers engaging us for extra categories of devices and services, and (iii) including the amount of cross-selling achieved as one of the key performance indicators for our sales and marketing staff. We also plan to promote cross-selling by providing new device categories to satisfy customers’ evolving demands, such as digital printing solutions and integrated cloud-based conferencing solutions. We believe that our comprehensive DLM solutions not only enhance customer stickiness, but also increase the amount of revenue we can earn from a single customer, thereby enhancing our competitiveness and profitability.

Further improve our operational efficiency through optimizing our major costs components

We intend to improve our operational efficiency through optimizing our major costs components as follows –

Depreciation: Our equipment for subscription is depreciated on a straight-line basis over their estimated useful life, which are generally five years and three years for brand new equipment and used equipment, respectively. We typically purchase devices designed for business use as devices for subscription, which have more stable performance and a higher

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residual value as opposed to consumer electronics devices. Our refurbishment and maintenance of devices primarily include (i) periodic system performance diagnosis and faults rectification, and (ii) replacement of obsolete or under-performing parts. As such, fully depreciated devices can be used for subscription, for another two years, during which the relevant device can continue to generate revenue from device subscription services without any depreciation charges. In 2019, 2020 and 2021, we refurbished 498,393, 999,268 and 1,375,443 devices, respectively, representing a CAGR of 66.1%. For the six months ended June 30, 2021 and 2022, we refurbished 428,427 and 681,053 devices, respectively, representing an increase of 59.0%. While the actual useful lives of certain devices can be extended, their useful lives for depreciation will remain unchanged for prudence sake. As subscription prices of devices generally decrease towards the end of their useful lives, we will determine the subscription prices of devices considering their number of years used, prices charged for comparable products offered by us in terms of conditions and functionality, as well as demand for and utilization of our devices for subscription in general. Our depreciation of property, plant and equipment and right-of-use assets amounted to RMB82.2 million in 2019, RMB131.2 million in 2020, RMB193.3 million in 2021 and RMB112.2 million for the first half-year of 2022 representing 100.1%, 91.2%, 72.8% and 74.6% of our device subscription revenue in 2019, 2020, 2021 and the first half-year of 2022, respectively.

Distribution and selling expenses: Sales and marketing efforts not only help us expand our customers base and subscription volume, but also enhances our brand awareness, making it a crucial support for our long-term business development. Our distribution and selling expenses largely consist of salaries and welfare of our sales and marketing team, which accounted for 8.1%, 3.1%, 4.1%, 4.1% and 3.9% of our revenue in 2019, 2020 and 2021 and for the first half-year of 2021 and 2022, respectively.

We expect that distribution and selling expenses will continue to be our main expenses, but we will improve the efficiency of such expenses via measures discussed in “– Expand our customer base and market share in core regions” and “– Increase revenue per customer through cross-selling among our service lines and device categories” above. We had 258 sales and marketing staff as of June 30, 2022 and plan to hire 70 sales and marketing staff in each of 2023, 2024 and 2025, representing growth of 27.1%, 21.3% and 17.6%, respectively, which we consider moderate compared to (i) our revenue CAGR during the Track Record Period of 63.1%, and (ii) CAGR of the DLM market in China of 32.0% from 2021 to 2026.

Finance costs: Our finance costs are primarily comprised of interest expenses on borrowings and accounted for 2.4%, 1.9%, 2.7%, 2.7% and 2.6% of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. To better control our finance costs, we will continue to utilize an optimal mix of equity and debt financing to finance our business operation and future plans, taking into account: (i) the time it takes to obtain equity financing of required size, as compared to debt financing which may require additional time for negotiation of terms and conditions; (ii) the rise in finance cost resulted from higher gearing ratio; and (iii) the fact that there is no obligation to repay principal and interests under equity financing, which means greater flexibility in allocating financial resources to grow our business. We also expect to receive more favorable terms of debt

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financing given the [REDACTED] status of the Company upon the [REDACTED]. Moreover, we intend to increase the proportion of bank borrowings, the interest rate of which is generally lower compared to borrowings from non-bank financial institutions. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our bank borrowing 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.

Our other operating expenses mainly include administrative expenses and research and development expenses which in aggregate accounted for 10.5%, 4.5%, 4.4%, 4.9% and 5.7% of total revenue in 2019, 2020, 2021 and the first half-year of 2021 and 2022, respectively. Such percentage is expected to decrease with our business growth. Leveraging our scalable business model to improve the cost-effectiveness, we have strong scale advantage with our market-leading position in China’s DLM market, which enables us to build up stable collaborative relationships with upstream suppliers, thereby reducing procurement costs and obtaining high quality devices for customers.

Working capital sufficiency

If the foregoing strategies are implemented as planned, we expect our total revenue to increase significantly in the next few years, against the backdrop of the fast growth of the DLM market in China. If we continue to increase our revenue as planned, we expect that our revenue from device recycling business, device subscription services and IT technical subscription services will increase significantly, mainly attributable to: (i) changes in the economic cycle will lead more enterprises to require IT asset disposal services; (ii) the continued impact of COVID-19 has weakened the willingness of enterprises to purchase IT devices. Device subscription services not only save cost and improve cash flow for enterprises, but also provide them with a flexible way to use IT devices; and (iii) enterprises are increasingly controlling labor costs, and labor outsourcing for non-core businesses has become a trend. Therefore, IT technical subscription services will have more room for development. We believe that the expected robust revenue growth and increasing operating leverage will drive our profitability. We plan to improve profitability mainly through realizing benefits from economies of scale, efficient operation management and control and the empowerment of digital management. Furthermore, our net cash generated from operating activities amounted to RMB58.7 million, RMB109.9 million and RMB278.8 million in 2019, 2020 and 2021 respectively, representing a CAGR of 117.9%. Our net cash generated from operating activities amounted to RMB192.9 million for the six months ended June 30, 2022.

Based on the foregoing, our Directors believe that our business is sustainable. As a result of (i) conversion of the Preferred Shares into equity upon the [REDACTED], and (ii) net proceeds from the [REDACTED], we expect our consolidated net liabilities position during the Track Record Period and as of the Latest Practicable Date to become consolidated net asset position upon the [REDACTED]. As of the Latest Practicable Date, we had unutilized banking facilities of approximately RMB152.4 million. Taking into consideration of financial resources currently available to us, including cash and cash equivalents on hand, internally generated funds and the estimated proceeds from the [REDACTED], our Directors are of the view that

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we have sufficient working capital to meet our present needs and at least for the next 12 months from the date of this document notwithstanding that we had recorded net current liabilities throughout the Track Record Period, net losses for the two years ended December 31, 2021 and the six months ended June 30, 2022 and net liabilities as at December 31, 2020 and 2021 and June 30, 2022. Having taken into account the view and analysis of our Directors above and the due diligence conducted, nothing has come to the attention of the Sole Sponsor which would cause it to disagree with our Directors’ view above.

The foregoing forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. For related risks, see “Risk Factors – Risks Relating to Our Business and Industry – Our historical growth rates may not be indicative of our future growth. If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.”

SALES AND MARKETING

Overview

We sell and deliver our DLM solutions through general marketing and branding by using different kinds of marketing channels. We have established long-standing relationships with leading Internet companies and e-commerce enterprises, including our strategic business partners. We adapt our sales and marketing strategies to directly respond to customers’ organizational priorities, inform their key decision makers, and focus on enhancing customer experience. Our sales team are equipped with thorough knowledge and expertise about our office IT services and business models, and are able to identify the needs of potential customers and business opportunities. We also constantly upgrade and enrich the content of our device subscription services to provide seamless services to meet our customers’ evolving needs as they become increasingly sophisticated and are of high standard in office IT devices.

We primarily operate our business online instead of offline physical stores. We aim to set our footprints in first- and second-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen and will continuously expand our customer base and service categories in these core cities. We organize our sales and marketing team by geographic locations focusing on cities with fast economic development and large market capacity to raise our sales efficiency. Our sales team is divided into different teams targeting different types of customers and offerings, which results in a higher level understanding of customers’ varying needs. We also have a systematic recruitment process and a comprehensive training program to continually improve the professional competency of our sales team in order to provide premium services to our customers.

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As of the Latest Practicable Date, our sales and marketing team consisted of more than 240 employees with knowledge of our business, technology and the DLM industry, and with extensive professional experience.

Marketing and Branding

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. Our marketing and branding efforts include the followings:

- *Direct sales efforts.* We rely on face-to-face marketing, including making cold calls, sending emails or paying visits to potential customers we meet at executive events, trade shows and industry events.
- *User traffic gained from our strategic Shareholders and business partners.* Our strategic Shareholders and business partners have opened up access to our services with corporate channels, from which we are able to gain large user traffic and expand our user base. See “– Our Strengths – Rapidly expanding customer base through reliable customer outreach channels.”
- *Advertisements on search engines.* We post advertisements on search engines and social media initiatives to attract customers.
- *Referrals by our existing customers.* We benefit from word-of-mouth referrals by our existing customers.

Collaboration with Strategic Shareholders and Business Partners

To market our brand and services in a more efficient way, we collaborate with leading Internet companies and e-commerce enterprises in China, including our strategic business partners, i.e. JD.com, Tencent and Lenovo, who are also our strategic Shareholders to mutually benefit from and enhance each other’s business. During the Track Record Period, the number of our strategic Shareholders and business partners increased from two (i.e. JD.com and Tencent) to three (i.e. JD.com, Tencent and Lenovo). They help broaden our customer acquisition channels and provide supply chain resources and offer business opportunities to us. For example, having served as its designated business partner in respect of office equipment solutions, Tencent WeStart would recommend our DLM solutions to the entrepreneurs and start-ups in the Tencent WeStart hub. Recommendations by Tencent WeStart are favorable to our credibility and position us better among providers of similar solutions. Our strategic Shareholders and business partners may also become our suppliers or customers of our DLM solutions. We amply share insights on business strategies during our collaboration. In respect of the collaboration on customer acquisition and the offering of business opportunities to us, see “– Our Strengths – Rapidly expanding customer base through reliable customer outreach channels” for details.

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We benefit from the aggregation effect brought by e-commerce platforms, such as JD.com, which facilitates the purchases under our device recycling business and accordingly increases our device recycling income. During the Track Record Period, our purchases under device recycling business from suppliers introduced through JD.com increased from RMB103.9 million in 2019 to RMB140.1 million in 2020 and further to RMB312.5 million in 2021, and increased from RMB111.4 million for the six months ended June 30, 2021 to RMB167.1 million for the six months ended June 30, 2022, representing 19.2%, 12.9%, 25.1%, 19.5% and 21.1% of our total purchases of IT devices under device subscription and recycling businesses for the respective periods. During the same periods, we generated a portion of revenue from the sales of de-commissioned IT devices through JD.com under our device recycling business. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, such revenue amounted to RMB36.7 million, RMB59.8 million, RMB61.1 million, RMB31.0 million and RMB25.5 million, respectively, accounting for approximately 12.1%, 7.8%, 6.6%, 8.7% and 4.1% of our total device recycling income for the respective periods.

We typically enter into collaboration framework agreements or memoranda with these strategic Shareholders and business partners, key terms of which include:

- *Collaboration scope.* Our strategic Shareholders and business partners primarily provide us with marketing resources by connecting us to their service platforms and granting us access to their large user traffic while broadening service offerings to their customers.
- *Collaboration term.* We generally maintain a collaboration term of 2.5 years to 3 years with our strategic Shareholders and business partners. We expect no material difficulty in renewing the current or signing another agreement upon expiry of the current collaboration framework agreements.
- *Confidentiality.* No disclosure of information about our collaboration framework agreements to any third party without the other party’s consent is permitted. In case of the termination of the agreements, the confidentiality clauses remain valid.
- *Dispute resolution.* In the event of any dispute, both parties shall negotiate amicably. If a consensus cannot be reached, the parties have the right to sue or submit to the arbitration commission, as specifically stipulated in the respective agreement.

JD.com is a leading supply chain-based technology and service provider. We acquainted with JD.com in our ordinary course of business. Beginning in 2017, we have been providing device subscription and recycling services to JD.com, which later became our strategic Shareholder and business partner. Tencent is a leading provider of Internet value-added services in China, including communications and social digital content, advertising, fintech and cloud services. We acquainted with Tencent in our ordinary course of business by providing device subscription services to the entrepreneurs and start-ups in the Tencent WeStart hub. Tencent later became our strategic Shareholder and business partner. Lenovo is principally engaged in manufacturing and distribution of IT products and provision of IT services. We acquainted with Lenovo in our ordinary course of business. Lenovo later became our strategic Shareholder and business partner.

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As confirmed by our Directors, there have not been any other past or present relationships (including, without limitation, business, family, trust, employment, shareholding, financing or otherwise) between the Group and each of JD.com, Tencent or Lenovo, their respective directors, shareholders or senior management, or any of their respective associates, save for (i) JD.com, Tencent and Lenovo being our strategic Shareholders and business partners, (ii) Mr. Li Jing, who is currently the vice president of JD.com and the president of the corporate business division of JD Retail, being our non-executive director, (iii) JD.com being among our five largest suppliers in 2019, 2020 and 2021, (iv) the continuing connected transactions with JD.com during the Track Record Period. See “Connected Transactions” for details, and (v) the related party transactions with subsidiaries, joint ventures and affiliates of JD.com and companies owned by the controlling shareholder of JD.com during the Track Record Period. See “Financial Information – Related Party Transactions” for details.

Our Relationship with JD.com

While we maintain a good relationship with our strategic Shareholder and business partner, JD.com, we do not have material reliance on, and have remained independent of, JD.com in the following aspects.

Customer Relationship

During the Track Record Period, JD.com only contributed to less than 0.5% of our revenue in the respective periods. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, we generated RMB0.4 million, RMB2.2 million, RMB4.1 million, RMB1.8 million and RMB2.3 million, respectively, for providing device subscription services to JD.com; RMB0.03 million, RMB0.16 million, RMB0.11 million, RMB0.02 million and RMB0.13 million, respectively, for providing IT technical subscription services to JD.com; and RMB0.1 million, nil, RMB0.01 million, approximately RMB3,000 and approximately RMB1,000, respectively, as device recycling income from JD.com. In addition, during the Track Record Period, JD.com generally contributed to less than 0.5% of gross profit in the respective periods, which was generally in line with its revenue contribution.

These transactions will constitute our continuing connected transactions upon [REDACTED]. See “Connected Transactions – Continuing Connected Transactions Subject to the Reporting, Annual Review and Announcement Requirements But Exempted from the Circular and Independent Shareholders’ Approval Requirements – 1. Subscription Services.”

Supplier Relationship

During the Track Record Period, our purchases from JD.com experienced a continuous decrease, which declined from RMB86.1 million in 2019 to RMB68.7 million in 2020 and further to RMB65.8 million in 2021, representing 15.9%, 6.3% and 5.3%, respectively, of our total purchases in the respective years. For the six months ended June 30, 2021 and 2022, our purchases from JD.com amounted to RMB37.1 million and RMB23.5 million, respectively, representing 6.5% and 3.0%, respectively, of our total purchases for the respective periods. The continuous decrease was primarily due to a decrease in our purchases of de-commissioned IT devices from JD.com which was affected by the disposal plans of de-commissioned IT devices

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of JD.com, partially offset by increases in (i) purchase of IT devices for subscription from JD.com which was in line with our business growth, and (ii) expenses attributable to JD.com primarily for marketing and promotion services, maintenance services and logistic services, which was in line with our business growth.

In particular, in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, our cost of sales attributable to JD.com amounted to RMB73.8 million, RMB52.7 million, RMB41.5 million, RMB25.6 million and RMB14.2 million, respectively; and our expenses attributable to JD.com amounted to RMB12.3 million, RMB16.0 million, RMB24.3 million, RMB11.5 million and RMB9.3 million, respectively. Our cost of sales attributable to JD.com primarily accounted for less than 5.0% of our Group’s total purchases of IT devices, and our total expenses attributable to JD.com generally maintained less than 2.5% of our Group’s revenue during the Track Record Period. Particularly, the amount of each category of related party transactions with the subsidiaries, joint ventures and affiliates of JD.com accounted for less than 1.5% of our Group’s revenue, indicating that the transactions were not substantial or significant.

These transactions will constitute our continuing connected transactions upon [REDACTED]. See “Connected Transactions – Continuing Connected Transactions Subject to the Reporting, Annual Review and Announcement Requirements But Exempted from the Circular and Independent Shareholders’ Approval Requirements – 2. Purchase of Devices” and “Connected Transactions – Continuing Connected Transactions Subject to the Reporting, Annual Review and Announcement Requirements But Exempted from the Circular and Independent Shareholders’ Approval Requirements – 3. Marketing, Promotion and Maintenance Services.”

Management and Administrative Independence

JD.com and us have respective directors and management teams who are independent of each other. Mr. Li Jing, who is currently the vice president of JD.com and the president of the corporate business division of JD Retail, is our non-executive director and is not involved in our day-to-day management.

Strategic Business Collaborations

We benefit from our partnership with JD.com, which has introduced customers to us offline and opened up online access to our services with its corporate channels. While important to us, we do not solely rely on JD.com as our customer outreach channel. During the Track Record Period, 75, 151, 154 and 137 customers purchased our device subscription services through JD.com’s offline introduction in 2019, 2020 and 2021 and for the six months ended June 30, 2022, respectively, who contributed in aggregate revenue of RMB4.4 million, RMB12.3 million, RMB35.9 million and RMB21.5 million, respectively, accounting for approximately 0.9%, 1.2%, 2.7% and 2.5% of our total revenue, for the same periods. In addition, commencing in the fourth quarter of 2020, we secured 23 device subscription customers through the online corporate channel of JD.com, who contributed in aggregate

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revenue of RMB0.02 million, accounting for approximately 0.002% our total revenue in 2020. In 2021, the number of device subscription customers introduced to us through the corporate channel of JD.com increased to 2,180, approximately half of which were secured in the second half of 2021 who contributed in aggregate revenue of RMB0.99 million, accounting for approximately 0.07% of our total revenue in 2021. For the six months ended June 30, 2022, we secured 1,992 device subscription customers through such channel, contributing in aggregate revenue of RMB1.8 million, accounting for approximately 0.2% of our total revenue for such period.

The aggregate device subscription revenue and gross profit contributed by customers who purchased our subscription services through JD.com accounted for less than 3.0% and 5.0%, respectively, of our Group’s revenue and gross profit, respectively, both of which were not material during the Track Record Period. Furthermore, the aggregate IT technical subscription revenue and gross profit contributed by such customers accounted for less than 0.6% and 3.0%, respectively, of our Group’s revenue and gross profit, respectively, both of which were not material during the Track Record Period. In addition, the aggregate revenue and gross profit contributed by customers who purchased our de-commissioned devices through the e-commerce platform of JD.com accounted for less than 8.0% and 3.0%, respectively, of our Group’s revenue and gross profit, respectively, both of which were not material and experienced a continuous decreasing trend during the Track Record Period.

We believe that, and JD.com concurs that, our DLM solutions are crucial to JD.com’s corporate business in that our services are complementary to the traditional sales of products of JD.com. Investment and collaboration with strategic business partners like us facilitate JD.com’s business model and operational efficiency, leading to its optimistic attitude towards, and belief in, our business prospects and potential growth. In light of the foregoing, our Directors are of the view that the Group’s relationships with JD.com will not materially adversely change or terminate in the future.

Apart from JD.com and the customers introduced by JD.com, during the Track Record Period, the rest of our customers contributed to nearly 90.0% of both of our Group’s revenue and gross profit. Our purchases from suppliers other than JD.com and those introduced by JD.com generally accounted for approximately 70% of our total purchases during the Track Record Period. Moreover, the expenses we incurred from our suppliers other than JD.com and/or its related parties and those introduced by JD.com generally accounted for more than 97.5% of our Group’s revenue. On the basis of the foregoing analyses, the overall revenue contribution, gross profit, costs and expenses attributable to (i) JD.com and/or its related parties, and (ii) customers and suppliers referred by JD.com and/or its related parties were not significant during the Track Record Period. Even if our relationships with JD.com were to materially adversely change or terminate in the future, our Directors are of the view that the Group’s business operations and financial performance would not be substantially affected.

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OUR CUSTOMERS

Our customers primarily include companies principally engaged in e-commerce, software development, education and trainings, retails, manufacturing and outsourcing services in China, among which our five largest customers in each year/period principally engaged in manufacturing, retail, IT related services and software development. In each year/period during the Track Record Period, revenue contributed from our five largest customers accounted for 21.0%, 31.3%, 17.7% and 38.1% of our total revenue, respectively, while the largest customer contributed 9.0%, 10.3%, 4.2% and 19.8% of our total revenue, respectively, for the same periods. Our five largest customers in each year/period during the Track Record Period were mostly from device recycling business due to their relatively large order size with revenue recognized upon goods delivery, while revenue from device subscription services was recognized throughout the entire subscription period. During the Track Record Period, we generally granted a credit term ranging from 0 to 180 days to our customers.

The following tables set out the details of our five largest customers in each year/period based on revenue contributed from them during the Track Record Period⁽¹⁾:

For the year ended December 31, 2019

Ranking	Customer	Type of services sold	Principal business	Listing status	Year of commencement of business relationship with the Group	Revenue (RMB'000)	Percentage of total revenue
1.	Customer A	Sales of IT devices	IT development and sales of IT and related devices	Private	2019	45,061	9.0%
2.	Customer B	Sales of IT devices	Research and development, and sales of environmental friendly devices and materials	Private	2018	20,448	4.1%
3.	Customer C	Sales of IT devices	Sales, consulting, outsourcing and provision of services related to new and second-hand IT devices	Private	2019	19,429	3.9%
4.	Customer D	Subscription of IT devices	Wholesale and retail of food, daily necessities, kitchen utensils and more	Listed on NASDAQ	2016	10,240	2.0%
5.	Customer E	Sales of IT devices	IT development and sales of IT and related devices	Private	2019	10,081	2.0%
Total						105,260	21.0%

(1) As advised by our PRC Legal Advisor, disclosure of the top five customers' respective identities would constitute a breach of confidentiality clauses under agreements with our customers, which require both parties to keep confidential of the relevant information or the business cooperation itself. We have made direct phone calls to each of the top five customers in each year/period during the Track Record Period to request for consent to disclose their respective identities in the document, all of whom have explicitly rejected our request.

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For the year ended December 31, 2020

Ranking	Customer	Type of services sold	Principal business	Listing status	Year of commencement of business relationship with the Group	Revenue (RMB'000)	Percentage of total revenue
1.	Customer F	Sales of IT devices	Sales of IT and related devices	Private	2020	105,014	10.3%
2.	Customer G	Sales of IT devices	IT development and sales of IT devices and software	Private	2020	62,694	6.1%
3.	Customer H	Sales of IT devices	Import and export of goods and IT devices	Private	2020	55,845	5.5%
4.	Customer I	Sales of IT devices	Sales of goods, including IT devices, auto parts, cosmetics and apparel	Private	2019	53,008	5.2%
5.	Customer J	Sales of IT devices	Sales of IT devices and operation of e-commerce platform	Private	2020	43,776	4.3%
Total						<u>320,337</u>	<u>31.3%</u>

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For the year ended December 31, 2021

Ranking	Customer	Type of services sold	Principal business	Listing status	Year of commencement of business relationship with the Group	Revenue (RMB'000)	Percentage of total revenue
1.	Customer K	Sales of IT devices	R&D, manufacturing and sales of purifiers and sales of IT devices and household appliances	Private	2021	56,465	4.2%
2.	Customer L	Sales of IT devices	IT development and provision of IT services	Private	2021	47,034	3.5%
3.	Customer A	Sales of IT devices	IT development and sales of IT and related devices	Private	2019	44,592	3.4%
4.	Customer M	Sales of IT devices	Sales of IT devices and accessories	Private	2019	44,561	3.3%
5.	Customer I	Sales of IT devices	Sales of goods, including IT devices, auto parts, cosmetics and apparel	Private	2019	42,205	3.2%
Total						<u>234,857</u>	<u>17.7%</u>

BUSINESS

For the six months ended June 30, 2022

Ranking	Customer	Type of services sold	Principal business	Listing status	Year of commencement of business relationship with the Group	Revenue (RMB'000)	Percentage of total revenue
1.	Customer N	Sales of IT devices	IT promotion and sales of IT devices	Private	2020	169,398	19.8%
2.	Customer G	Sales of IT devices	IT development and sales of IT devices and software	Private	2020	55,032	6.4%
3.	Customer O	Sales of IT devices	IT development and sales of IT devices and retail goods	Private	2019	40,457	4.7%
4.	Customer F	Sales of IT devices	Sales of IT and related devices	Private	2020	35,143	4.1%
5.	Customer I	Sales of IT devices	Sales of goods, including IT devices, auto parts, cosmetics and apparel	Private	2019	26,543	3.1%
Total						326,573	38.1%

During the Track Record Period, except for Customer D, all of our five largest customers in each year/period were device recycling customers who purchased the de-commissioned IT devices from us. The distribution of our five largest customers appeared random in each year/period during the Track Record Period as enterprises usually purchase IT devices in bulk as part of their capital investment which by nature may not take place every year.

To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of our five largest customers in each year/period were Independent Third Parties. During the Track Record Period, our overlapping customers and suppliers (including Supplier A) were typically engaged in manufacturing, retails, e-commerce, manufacturing and sales of IT devices, software development, education and trainings, and certain individuals. In 2019, 2020 and 2021 and for the six months ended June 30, 2022, the total revenue we generated from the customers who were also our suppliers during such periods reached RMB92.0 million, RMB249.2 million, RMB216.1 million, and RMB30.8 million, respectively. Such sales were not related to or inter-conditional with the purchases from our overlapping suppliers.

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During the Track Record Period, we did not have any material disputes with the aforementioned customers nor did we receive any material complaints from such customers.

To the best of our Directors’ knowledge, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest customers in each year/period as of the Latest Practicable Date.

In our ongoing efforts to enhance customer satisfaction and improve service quality, we maintain a dedicated customer support and service team focused on real-time problem-solving and maintenance of our IT equipment with the ultimate goal of improving user experience and increasing customer stickiness.

OUR SUPPLIERS

Our suppliers primarily include companies with business operations in new economy industries such as IT device manufacturing and e-commerce in China, among which our five largest suppliers in each year/period have business in IT device manufacturing and e-commerce. In each year/period during the Track Record Period, our purchases from our five largest suppliers accounted for 48.1%, 53.9%, 50.1% and 65.2% of our total purchases, respectively, while our purchase from the largest supplier accounted for 15.9%, 30.7%, 21.2% and 44.0% of our total purchases, respectively, for the same periods. We generally purchased IT devices from our five largest suppliers in each year/period during the Track Record Period. During the Track Record Period, our suppliers generally granted us a credit term of 0 to 30 days.

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The following tables set out the details of our five largest suppliers in each year/period based on purchases from them during the Track Record Period⁽¹⁾:

For the year ended December 31, 2019

Ranking	Supplier	Type of products purchased	Principal business	Listing status	Year of commencement of business relationship with the Group	Purchase amount (RMB'000)	Percentage of total purchase
1.	Supplier A*	IT devices for subscription	Operation of e-commerce platform and sales of goods, including computers and household appliances	Listed on NASDAQ and the Hong Kong Stock Exchange	2018	86,129	15.9%
2.	Supplier B	IT devices for recycling	Collection, recycling and utilization of waste materials	Private	2018	57,840	10.7%
3.	Supplier C	IT devices for recycling	IT development, IT technical services and sales of software	Private	2019	54,130	10.0%
4.	Supplier D	IT devices for subscription	Application software services, technology development, and technical services and consultation	Listed on NEEQ	2017	40,363	7.5%
5.	Supplier E	IT devices for recycling	Wholesale and IT consulting	Private	2019	21,699	4.0%
Total						260,160	48.1%

(1) As advised by our PRC Legal Advisor, disclosure of the top five suppliers' respective identities would constitute a breach of confidentiality clauses under agreements with our suppliers, which require both parties to keep confidential of the relevant information or the business cooperation itself. We have made direct phone calls to each of the top five suppliers in each year/period during the Track Record Period to request for consent to disclose their respective identities in the document, all of whom have explicitly rejected our request.

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For the year ended December 31, 2020

Ranking	Supplier	Type of products purchased	Principal business	Listing status	Year of commencement of business relationship with the Group	Purchase amount (RMB'000)	Percentage of total purchase
1.	Supplier F	IT devices for recycling	Retail, wholesale, import and export of new and second-hand IT devices	Private	2020	334,220	30.7%
2.	Supplier D	IT devices for subscription	Application software services, technology development, and technical services and consultation	Listed on NEEQ	2017	71,088	6.5%
3.	Supplier A*	IT devices for subscription	Operation of e-commerce platform and sales of goods, including computers and household appliances	Listed on NASDAQ and the Hong Kong Stock Exchange	2018	68,697	6.3%
4.	Supplier G	IT devices for recycling	R&D, manufacturing, sales and after-sales service of IT devices and accessories, and IT technical services	Private	2020	59,713	5.5%
5.	Supplier H	IT devices for recycling	Collection and sales of second-hand IT devices, and IT development, training and consulting	Listed on NASDAQ and the Hong Kong Stock Exchange	2019	52,266	4.8%
Total						585,984	53.9%

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For the year ended December 31, 2021

Ranking	Supplier	Type of products purchased	Principal business	Listing status	Year of commencement of business relationship with the Group	Purchase amount (RMB'000)	Percentage of total purchase
1.	Supplier C	IT devices for recycling	IT development, IT technical services and sales of software	Private	2019	264,286	21.2%
2.	Supplier I	IT devices for recycling	IT development, consultation, training and provision of technical services	Private	2021	146,164	11.7%
3.	Supplier J	IT devices for subscription	Manufacturing, R&D and sales of IT and mobile devices and accessories	Listed on NYSE (parent company)	2015	85,914	6.9%
4.	Supplier A*	IT devices for subscription	Operation of e-commerce platform and sales of goods, including computers and household appliances	Listed on NASDAQ and the Hong Kong Stock Exchange	2018	65,830	5.3%
5.	Supplier D	IT devices for subscription	Application software services, technology development, and technical services and consultation	Listed on NEEQ	2017	61,689	5.0%
Total						<u>623,883</u>	<u>50.1%</u>

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For the six months ended June 30, 2022

Ranking	Supplier	Type of products purchased	Principal business	Listing status	Year of commencement of business relationship with the Group	Purchase amount (RMB'000)	Percentage of total purchase
1.	Supplier G	IT devices for recycling	R&D, manufacturing, sales and after-sales service of IT devices and accessories, and IT technical services	Private	2020	348,292	44.0%
2.	Supplier K	IT devices for subscription and recycling	R&D, sales, repair and testing of IT and related devices, data management services and software R&D services	Listed on the Hong Kong Stock Exchange	2018	57,866	7.3%
3.	Supplier I	IT devices for recycling	IT development, consultation, training and provision of technical services	Private	2021	41,532	5.3%
4.	Supplier C	IT devices for recycling	IT development, IT technical services and sales of software	Private	2019	39,148	5.0%
5.	Supplier L	IT devices for recycling	IT development and consultation and provision of cloud-based platform services	Listed on the SSE STAR Market	2020	28,263	3.6%
Total						515,101	65.2%

* Supplier A is a related party and a connected person. For details of transactions with Supplier A during the Track Record Period, please see note 35 – Related Party Transactions in Appendix I to this document for related parties transactions, and the section headed “Connected Transactions” for continuing connected transactions.

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During the Track Record Period, except for Supplier A, Supplier D, Supplier J and Supplier K, all of our five largest suppliers in each year/period were device recycling suppliers who disposed of their de-commissioned IT devices to us. The distribution of our five largest suppliers appeared random in each year/period during the Track Record Period as enterprises usually dispose of their de-commissioned IT devices in bulk as part of their fixed asset management which by nature may not take place every year.

To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of our five largest suppliers in each year/period were Independent Third Parties. During the Track Record Period, our overlapping customers and suppliers (including Supplier A) were typically engaged in manufacturing, retails, e-commerce, manufacturing and sales of IT devices, software development, education and trainings, and certain individuals. In 2019, 2020 and 2021 and for the six months ended June 30, 2022, the total purchase amount we incurred from the suppliers who were also our customers during such periods reached RMB193.0 million, RMB169.8 million, RMB153.5 million and RMB64.4 million, respectively. Such purchases were not related to or inter-conditional with the sales from our overlapping customers.

The number of our recurring suppliers (i.e. suppliers with whom we had transactions in the respective year and at least one other year during the Track Record Period) for de-commissioned IT devices was 193 in 2019, 184 in 2020, 260 in 2021, and 165 and 161 for the six months ended June 30, 2021 and 2022, respectively. The purchase amount we made with the aforesaid recurring suppliers for de-commissioned IT devices was RMB274.1 million in 2019, RMB605.6 million in 2020, RMB658.9 million in 2021, RMB255.1 million and RMB589.5 million for the six months ended June 30, 2021 and 2022, respectively, which amounted to 50.6%, 55.7%, 52.9%, 44.6% and 74.6% of our total purchase value in 2019, 2020, 2021, and for the six months ended June 30, 2021 and 2022, respectively. The purchase volume we made with the aforesaid recurring suppliers for de-commissioned IT devices was 217,771 in 2019, 611,991 in 2020, 710,695 in 2021, 190,138 and 430,315 for the six months ended June 30, 2021 and 2022, respectively, which amounted to 63.0%, 76.8%, 77.7%, 62.9% and 82.8% of our total purchase volume in 2019, 2020, 2021, and for the six months ended June 30, 2021 and 2022, respectively.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant fluctuation in prices set by our suppliers, material breach of contract on the part of our suppliers, or delay in delivery of our orders from our suppliers.

To the best of our Directors’ knowledge, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest suppliers in each year/period as of the Latest Practicable Date.

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INVENTORY MANAGEMENT

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. See “Financial Information – Discussion of Certain Consolidated Statements of Financial Position Items – Assets – Inventories.” We have implemented policies to optimize our inventory level. According to such policies, we standardize our inventory management through our digital warehousing system across our general warehouse in Wuhan and sub-warehouses in Shenzhen, Shanghai, Beijing, Guangzhou, Nanjing, Xiamen, Chengdu and Hangzhou. Each of the inventories is given a unique identification code at the time of storage and we keep track of all inventories at all stages.

We inspect our warehouses on a daily basis, and conduct spot checks from time to time to ensure smooth operation within the warehouses. We analyze our inventory level on a monthly basis, and prepare inventory inspection reports and deal with obsolete and slow-moving inventories in a timely manner. In particular, in respect of inventories stored for more than 30 days, our system would automatically pop up a reminder on the homepage interface of our sales team when they log into the system. Such reminder allows our sales team to keep track with all the obsolete inventories and subsequently develop plans for their sales. For slow-moving IT devices held for sale, we collect information about prices of comparable brands and models in the market and adjust our selling prices to the extent appropriate. For IT components and accessories that become obsolete due to normal wear and tear during their usage from our device subscription service customers, we confirm the inventory status through our digital warehousing system and dispose of them in a timely manner.

RESEARCH AND DEVELOPMENT

Our vision and focus on innovation have fueled our growth and enabled us to continuously improve our existing offerings and develop new services and solutions. We aim at building a core and integrated technology system for our device subscription services to support more business lines and to connect with more business partners. By continuing to develop our device management SaaS and integrate our device recycling business, device subscription services and IT technical subscription services, we endeavor to provide enterprises with integrated DLM solutions. During the Track Record Period, our research and development expenses amounted to RMB12.0 million, RMB13.7 million, RMB18.3 million, RMB8.0 million and RMB13.0 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

In addition, we have developed a complete front-desk, middle-office and back-end system to facilitate our daily operations. In the front-desk, we have built our own bearrental.com website, SaaS platform, customer relationship management (CRM) and connected with JD.com

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channel to present intelligent user interface for the access to our DLM business. In the middle-office, we have built our risk control management system, order settlement and delivery system, warehouse management system, office asset management system, and manual settlement and clearing system to handle complex operation, facilitate the connection between users and our staff and act as a bridge between the front-desk and back-end system. It also meets the technology needs of the refined operation management of our enterprise customers. In the back-end, we have established the ERP system which included material management and financial accounting and controlling, consisted of the database and infrastructure that controls the front-desk software and platform and is not shown to the user. We believe strong research and development capabilities are crucial to our continued success and ability to develop quality service offerings to keep up with fast development and advances in software technology.

Research and Development Team

We have established an R&D center in our headquarter, Shenzhen, focusing on daily R&D activities and operations. As of the Latest Practicable Date, we employed more than 70 dedicated R&D staff.

Research and Development Process

Our development process for a new DLM solution or a major new update to existing solutions and software can be divided into four stages. Each of the first three stages usually takes around one month, while the final stage is an ongoing process.

- *Stage 1: Demand Analysis.* Our sales and marketing team takes the lead on conducting market analysis to collect feedback from customers.
- *Stage 2: Product Design and Review.* We design new solutions and software to address our customers' needs.
- *Stage 3: Product Development.* We complete coding, testing and verification before officially launching the new solution or software.
- *Stage 4: Ongoing Optimization.* We make continuous efforts in R&D and technology innovations and continue to optimize functions and performance based on user feedback. We also release updated versions with improved features and functionalities regularly.

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DATA PRIVACY AND INFORMATION SECURITY RISK MANAGEMENT

Overview

In the course of our business, we collect and process personal data and transaction data. Specifically, we collect and process (i) phone numbers of customers for the purpose of their registration and login on Bear Butler and bearrental.com website, (ii) credit card number and identity card information of customers for the purposes of verifying their identities when signing electronic service agreements and making electronic delivery order, (iii) business licenses, corporate addresses and industry information of customers such as in which industry our customers engaged and our internal classification of such industries. See “Risk Factors – Risks Relating to Our Business and Industry – We collect, store and process certain business data of our own business and our customers. If our information system security is compromised and such business data is accessed without authorization, our reputation may be harmed, and we may be exposed to potential liability and significant loss of business.” and “Regulatory Overview – Regulations Relating to Internet Security, Information Security and Data Privacy – Regulations Relating to Information Security and Data Privacy.”

We pay close attention to risk management relating to our IT system, as storage and protection of corporate data and related information is critical to us. To ensure data security, we have adopted a rigorous encrypted algorithm to store sensitive data and strictly execute a data accessing and transmitting policy to ensure the confidentiality of our data. We have also developed strict internal control and data accessing mechanisms and detailed approval and operation procedures regarding data storage and processing. We have established a set of internal protocols on data security, which set forth detailed, stringent requirements in relation to the use, disclosure and protection of confidential information. Among other things, such internal protocols:

- provide limited authorization to our employees holding specific positions at specific levels to access and process corporate data on a need-to-know basis, who shall use such data only for the purposes of performing their work assignment; and
- require our employees to obtain written authorizations from users before performing any requests.

We provide data privacy trainings to employees on a periodic basis to increase their compliance awareness. In addition, employees are required to sign a confidentiality agreement with us, which prohibits them from disclosing any confidential information relating to their work without our consent. We have a comprehensive data backup system to encrypt and store data on servers in different locations in order to minimize the risk of data loss. We also conduct data restoration tests to examine the status of the backup system on a regular basis.

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In addition, we have established a remote disaster recovery system for our server by setting up multiple storage for the same information and data of long time dimension on the cloud, local and remote locations. Even if the server is damaged due to the highest level of disasters such as earthquakes, mudslides and other irresistible natural disasters, we believe that it can safeguard and guarantee that the service and data can be completely restored within 24 hours.

During the Track Record Period, we did not experience any breach of confidential information of users or any other user information related incidents which could cause a material adverse effect on our business, financial condition or results of operations. As confirmed by our PRC Legal Advisor, we were in compliance with the applicable PRC data privacy and security laws, rules and regulations relating to the collection, use or security of personal data in all material respects during the Track Record Period and up to the Latest Practicable Date.

Recent Regulatory Developments

On December 28, 2021, the CAC and other 12 PRC governmental authorities jointly issued the revised Measures for Cybersecurity Review (《網絡安全審查辦法》) (the “**Revised Cybersecurity Review Measures**”) which took effect on February 15, 2022. The Revised Cybersecurity Review Measures stipulate that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Revised Cybersecurity Review Measures also stipulate that a platform operator with more than one million users’ personal information aiming to be listed abroad must apply for cybersecurity review. Also, the competent PRC government authority may initiate cybersecurity review in case that any member of the cybersecurity review committee believes that any network product or service or data processing activity affects or is likely to affect national security. On November 14, 2021, the CAC published the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Data Security Regulations**”), which applies to activities relating to the use of network to carry out data processing activities within the territory of the PRC. See “Regulatory Overview – Regulations Relating to Internet Security, Information Security and Data Privacy” for more details.

No Cybersecurity Review Required

According to the Revised Cybersecurity Review Measures, a network platform operator with more than one million users’ personal information seeking to be listed abroad must apply for cybersecurity review. However, it is unclear as to the definite explanation or interpretation to “network platform operator” (網絡平台運營者) in the Revised Cybersecurity Review Measures. According to the Draft Data Security Regulations, a network platform operator refers to a data processor who provides users with network platform services including social networking services, transaction and payment services, and audio-visual services. By referring to such definition in the Draft Data Security Regulations, we are highly likely to be considered

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as a network platform operator as we, acting as a data processor, provide device subscription and IT technical subscription services through our official website (bearrental.com), provide device management SaaS through *Bear Butler*, and sell our own de-commissioned IT devices through our proprietary quotation platform (jp.lr-amm.com), according to our PRC Legal Advisor. However, as of the Latest Practicable Date, we possessed the personal information of a total of 49,272 registered users from all of our websites and platform, which was far below the one million threshold⁽¹⁾.

On May 9, 2022, our PRC Legal Advisor conducted a phone consultation with CCRC, an institution authorized by CAC to conduct cybersecurity review which, according to our PRC Legal Advisor, is a competent authority to provide a view on such matter. Our PRC Legal Advisor informed CCRC of the [REDACTED] and consulted whether it is necessary for us to apply for cybersecurity review, and specifically inquired whether “listing in Hong Kong” constitutes “listing abroad.” As confirmed by CCRC, we do not need to apply for such review for the [REDACTED] and, specifically, “listing in Hong Kong” does not constitute “listing abroad.” Based on the foregoing, our PRC Legal Advisor is of the view that we are not obliged to apply for cybersecurity review for the [REDACTED] under the current regulatory regime.

Pursuant to Article 16 of the Revised Cybersecurity Review Measures, the competent PRC government authorities may initiate cybersecurity review where the purchase of any network products or services or any data processing activities affects or is likely to affect national security. According to our PRC Legal Advisor, as the types of data processed by the Group are mainly transaction data and user data for registration authentication, which have not been recognized as “essential data” or “national core data” by the competent PRC government authorities or have been determined to be endangering national security and public interests by any regulatory authority, the risk of the competent PRC government authorities initiating cybersecurity reviews on us is low. The Sole Sponsor’s PRC legal advisor concurs with the foregoing analysis as to the related PRC Laws by our PRC Legal Advisor.

Compliance with Cybersecurity Regulations

According to our PRC Legal Advisor and as confirmed by our Directors, if the Draft Data Security Regulations were to be implemented in their current form, the Group would be in compliance with the Revised Cybersecurity Review Measures and the Draft Data Security Regulations in all material aspects.

(1) We only acquire the personal information from users who register on our websites and apps, including *Bear Butler*. For a detailed description of active users, see “– Device Management SaaS – Bear Butler.” The personal information of the active users of *Bear Butler* are not disclosed to us if they merely use *Bear Butler* to manage their subscribed or self-owned devices. As a result, the number of registered users whose personal information we possess is different from that of active users on *Bear Butler*.

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During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or determination from the competent PRC government authorities identifying us as a critical information infrastructure operator. Accordingly, our PRC Legal Advisor is of the view that we do not need to apply for a cybersecurity review for purchases of network products or services or data handling activities with its current business operations.

No Material Adverse Impact on Our Business Operations

According to our PRC Legal Advisor and as confirmed by our Directors, the Revised Cybersecurity Review Measures and the Draft Data Security Regulations, if implemented in their current form, would not have a material adverse effect on our business operations or the [REDACTED] on the basis that:

- (i) we have implemented relevant measures to ensure user privacy and data security and to comply with applicable cybersecurity and data privacy laws and regulations in the PRC,
- (ii) as of the Latest Practicable Date, we had not been subject to any investigation, inquiry or sanction in relation to cybersecurity or data privacy or any cybersecurity review from the CAC or any other relevant government authorities,
- (iii) during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with cybersecurity or data privacy laws or regulations,
- (iv) as advised by our PRC Legal Advisor, we had not been involved in any activities that might give rise to national security risks based on the factors set out in Article 10 of the Revised Cybersecurity Review Measures during the Track Record Period and up to the Latest Practicable Date, and
- (v) during the Track Record Period and up to the Latest Practicable Date, we had not received any notice or determination from the competent PRC government authorities identifying us as a critical information infrastructure operator.

Having taken into account the view and analysis of our Directors and the PRC Legal Advisor as described above as well as the due diligence conducted, nothing has come to the attention of the Sole Sponsor which would cause it to disagree with the reasonableness of our Directors' view that (i) the Group would be in compliance with the Revised Cybersecurity Review Measures and the Draft Data Security Regulations in all material aspects if the Draft Data Security Regulations were to be implemented in their current form; and (ii) the Revised Cybersecurity Review Measures and the Draft Data Security Regulations, if implemented in their current form, would not have a material adverse effect on our business operations or the [REDACTED].

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As of the Latest Practicable Date, the scope of critical information infrastructure operators and the scope of network products or services or data processing activities that affect or may affect national security remain unclear and are subject to interpretation by relevant government authorities. The Draft Data Security Regulations were released for public comment only and the final version and effective date are subject to change and uncertainty. We cannot preclude the possibilities that new regulations or rules in the future may impose additional compliance requirements on us. See “Risk Factors – Risks Relating to Our Business and Industry – We collect, store and process certain business data of our own business and our customers. If our information system security is compromised and such business data is accessed without authorization, our reputation may be harmed, and we may be exposed to potential liability and significant loss of business.” We plan to closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the Draft Data Security Regulations and the interpretation or implementation rules of laws and regulations of cybersecurity and data protection, and will adjust and enhance our data practices in a timely manner to ensure compliance once such interpretation or implementation rules come into effect.

INTELLECTUAL PROPERTY

We regard our copyrights, trademarks, trade secrets and other intellectual property rights as critical to our business operations. As of the Latest Practicable Date, we possessed 48 software copyrights, 2 art copyrights, 23 trademarks and 21 domain names in China. We had also filed applications for 2 trademarks in China as of the same date. For detailed information about our material intellectual property, see “Appendix IV. Statutory and General Information – B. Further Information about our Business – 2. Intellectual Property Rights of our Group.”

In this regard, we rely primarily on a combination of copyrights, trademarks, trade secrets, and unfair competition laws and contractual rights, such as confidentiality agreement, to protect our intellectual property rights. We generally state all rights and obligations regarding the ownership and protection of intellectual properties in employment confidentiality agreements and some commercial agreements we enter into. In addition, we have taken the following key measures to protect our intellectual property rights: (i) implementing a set of comprehensive internal policies to establish robust management over our intellectual property rights, (ii) deploying a special team to guide, manage, supervise and monitor our daily work regarding intellectual properties, (iii) timely registration, filing and application for ownership of our intellectual properties, (iv) actively tracking the registration and authorization status of intellectual properties and take action in a timely manner if any potential conflicts with our intellectual properties are identified, and (v) engaging professional intellectual property service providers.

As explicitly stated in our device subscription service agreement, we are only responsible for the assembly and set-up of the devices. It is the responsibility of our customers to install software they need in accordance with the relevant laws and regulations. All responsibilities of infringement of intellectual property alleged by third parties caused by the improper use of

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unlicensed software shall be borne by the customers. Moreover, we regularly inspect for our IT devices in order to prohibit our employees from installing pirated software and to ensure we do not infringe the intellectual property of any licensed software.

As of the Latest Practicable Date, we had not been subject to any material disputes or claims for infringement upon third parties’ intellectual property rights in the PRC.

COMPETITION

We face competition in respect of the quality and effectiveness of our DLM solutions, our ability to meet potential customers’ expectations and specifications in a flexible way, and our experience and reputation. The principal competitive factors in our industry generally include scope and quality of services, speed in response, marketing and sales capabilities, user experience, pricing, brand recognition and reputation.

We believe that there are high barriers for our competitors to enter into the market, which include, among other things, sufficient capital, extensive customer acquisition, vast equipment resources, accumulated industry experience, effective risk control management system, and extensive research and development capacities. For more information on the competitive landscape of our industry, see “Industry Overview.” Our Directors believe that we will maintain our competitiveness over other competitors and our market position by strengthening and developing our competitive strengths. Our competitive strengths are highlighted in the paragraph headed “Our Strengths” in this section.

SEASONALITY

We experience seasonal fluctuations in our revenue and results of operations. We have historically experienced accelerated revenue generation, especially from our device recycling business, in the second half of a particular year as compared to the first half of that year. This is mainly attributable to the tendency that most of the enterprise users make close-to-year-end disposal plans to match with their recruitment schedules, which results in higher IT device recycling demands. Overall, the impact of seasonality on our business has been relatively mild due to our fast growth. The seasonal trends we have experienced in the past may not apply to, or be indicative of, our future operating results. See “Risk Factors – Risks Relating to Our Business and Industry – Our results of operations are subject to seasonal fluctuations.”

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EMPLOYEES

As of June 30, 2022, we had 796 full-time employees, all of whom were based in China. The following table sets forth the number of our employees by function as of June 30, 2022:

Function	Number of employees
Sales and marketing	258
IT technical subscription services	240
Refurbishing and manufacturing	119
Research and development	79
Risk management	22
Administration and management	78
Total	796

We recognize the importance of talents for sustainable business growth and competitive advantages. We believe that our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive salaries, performance-based bonuses, and other incentives. We typically sign non-competition agreement with our senior management or other key employees with a two-year term. Our employees are reviewed every month or season on the basis of, among other criteria, their abilities to achieve stipulated performance targets. As a result, we have generally been able to attract and retain qualified employees and maintain a stable core management team.

We plan to adopt a diversified recruitment approach to ensure a sufficient talent pool for key positions. We primarily recruit our employees through on-campus recruitment, online channels and third-party employment websites. We provide on-board training for all of our employees as well as periodic training or seminars to ensure their self-development. We also strive to create a multiple-incentive mechanism and a friendly working environment to fulfil our employees’ full potential.

Our employees are not currently represented by any labor union. We believe that we generally maintain good working relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any labor disputes or strikes, except for certain civil lawsuits arising from disputes with former employees concerning the calculation of compensation to them. Such civil lawsuits have been fully settled with indemnification of approximately RMB100,000 in aggregate, which are immaterial to us and have been paid in full. Our Directors are therefore of the view that such civil lawsuits do not have any material adverse effect, whether financial or operational or otherwise, on our Group. See “Risk Factors – Risks Relating to Our Business and Industry – We are subject to risks relating to litigation and disputes, which could adversely affect our business, prospects, results of operations and financial condition.”

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Social Insurance and Housing Provident Fund Contribution

During the Track Record Period and up to the Latest Practicable Date, we did not make full social insurance and housing provident fund contribution for our employees in strict compliance with relevant laws and regulations. See “Risk Factors – Risks Relating to Our Business and Industry – We may be subject to additional contributions of social insurance and housing provident fund and late payments and fines imposed by relevant governmental authorities” for the relevant risks. According to the certifying letters issued by relevant local social insurance and housing provident fund bureaus which, according to our PRC Legal Advisor, are the competent authorities for issuing such letters, during the Track Record Period, such authorities did not impose administrative penalties on our PRC subsidiaries for failure to make full social insurance or housing provident fund contributions. It is also confirmed that our PRC subsidiaries had not made social insurance or housing provident fund contributions in arrears.

As advised by our PRC Legal Advisor, according to (i) the interviews conducted with the deputy chief officer of Futian Branch of Shenzhen Social Insurance Fund Administration (深圳市社會保險基金管理局福田分局) and an officer responsible for handling provident fund-related matters of Futian Management Department of Shenzhen Provident Fund Management Center (深圳市公積金管理中心福田管理部) who, according to our PRC Legal Advisor, are competent to advise on such matters; (ii) our Directors’ confirmation that we had not been imposed of any administrative penalties for not paying the social insurance premiums and housing provident funds in full, or received any notice to pay the shortfall, by relevant social insurance and housing provident fund bureaus during the Track Record Period; and (iii) proper examinations and inspections conducted by our PRC Legal Advisor, the risk of being imposed of administrative penalties by the relevant social insurance and housing provident fund bureaus regarding the failure to pay the social insurance premiums and housing provident funds in full for our employees during the Track Record Period in Shenzhen is low. Moreover, as we have not received complaints from our employees, the risk of being required to pay such shortfall by the relevant social insurance and housing provident fund bureaus is low.

In addition, as advised by our PRC Legal Advisor, regarding our PRC subsidiaries incorporated outside Shenzhen, since (i) we have received the certifying letters from the relevant social insurance and housing provident fund bureaus confirming that we had not been imposed of any administrative penalties, and that our PRC subsidiaries had not made social insurance or housing provident fund contributions in arrears, during the Track Record Period; (ii) our Directors have confirmed that we had not been imposed of any administrative penalties for not paying the social insurance premiums and housing provident funds in full, or received any notice for paying the shortfall, by relevant social insurance and housing provident fund bureaus during the Track Record Period and have promised to pay the shortfall upon requirement by the relevant authorities; and (iii) as of June 30, 2022 we have made provision of RMB13.0 million for the social insurance and housing provident fund contribution shortfall in preparation to meet any possible future requirement by the relevant authorities to make the

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overdue payment, the risk of being imposed of administrative penalties by the relevant social insurance and housing provident fund bureaus regarding the failure to pay the social insurance premiums and housing provident funds in full for our employees during the Track Record Period is low.

To prevent recurrence of the non-compliance incidents in relation to under-contributions of social insurance and/or housing provident fund, we will review our social insurance and housing provident fund contributions on a regular basis and will make social insurance and housing provident plan contributions in accordance with applicable legal requirements.

LAND AND PROPERTIES

Owned Properties

We are headquartered in Shenzhen. As of the Latest Practicable Date, we did not own any properties in the PRC.

Leased Properties

As of the Latest Practicable Date, we leased 15 properties in the PRC with an aggregate GFA of approximately 24,077 sq.m. from third parties. These properties were used primarily as premises of offices and storages. Our lease agreements in respect of the abovementioned leased properties generally have lease terms ranging from one to 10 years.

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部). As of the Latest Practicable Date, we had not obtained lease registration for 10 of our leased properties in China. See “Risk Factors – Risks Relating to Our Business and Industry – We may be liable for failure to register and file our lease agreements, which may subject us to penalties.” for details. The lease agreements for our leased properties had not been registered as required, primarily due to the lack of cooperation from our lessors in registering the relevant lease agreements. We will take all practicable and reasonable steps to ensure that such leases are registered. To minimize the potential negative impact of the non-registered leases on our operations, we continue to communicate with such lessors to seek their cooperation to complete the registration process. As advised by our PRC Legal Advisor, the lack of registration of the lease agreements does not affect the validity of such lease agreements.

According to the relevant PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we had not received any such request or suffered any such fine from the relevant government authorities. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

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As of the Latest Practicable Date, the lessors of four of our leased properties were unable to provide valid ownership certificates or other sufficient ownership documents. We primarily used such properties as offices and warehouses. Any dispute or claim arising from such title defects of our leased properties may require us to relocate our premises and incur relocation costs. See “Risk Factors – Risks Relating to Our Business and Industry – We may incur additional costs as a result of any dispute or claim arising from the title defects of our leased properties.” As of the Latest Practicable Date, we had not received any request of relocation from the lessors or any third parties. Even if we are required to do so in the future, our Directors are of the view that we will not incur substantial costs for seeking alternative premises due to the convenience of relocating offices and warehouses. In addition, we reserve the right to claim the lessors’ liabilities arising from an event of default under the relevant PRC laws and the lease agreements.

In the unlikely event that we are forced to vacate such four leased properties by the relevant PRC authority, we believe it would not be difficult to find suitable sites for relocation or to transport our devices or redecorate our office areas, as the four leased properties are located in industrial parks or business districts where properties available for rent are sufficient. We estimate the costs of the relocation would be approximately RMB2.3 million, including the logistics expenses and capital expenditure for the backup sites, which are expected to be funded by our internal resources. We estimate such relocation, if occurs, would take approximately 30 days to complete. We believe that such relocation, if occurs, would not have a material adverse effect on our business, financial condition and results of operations.

According to our PRC Legal Advisor, our Group will not be subject to any penalties for the four leased properties with title defects as our Group does not own such properties and do not have the obligation to rectify such issue. Our Directors are of the view that the lack of the ownership certificates or other sufficient ownership documents of these four leased properties did not cast any actual or potential impact on the Group’s material licenses, or impose a material adverse effect on the Group’s business, financial position and results of operations during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

During the Track Record Period, we provided mandatory social insurance for our employees as required by PRC social insurance regulations, such as pension insurance, unemployment insurance, work injury insurance and medical insurance. We also maintain workplace accident insurance for certain of our employees who frequently work on-site, and compulsory insurance for vehicle traffic accident liability.

We do not maintain keyman life insurance or insurance covering damages to our network infrastructure, IT systems or business interruption. In addition, we may be subject to product liability if the IT devices sold or subscribed do not conform to the physical health requirements as stipulated in relevant PRC laws and regulations. However, as we are not the producers of these IT devices, we, as a service provider and seller, would not bear the ultimate product liability and have the right to claim indemnification against the producer for product defects

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arising from the production process. During the Track Record Period, we had not been the subject of any project liability claims. Our Directors consider our insurance policy as a whole is in line with the general market practice and complies with the relevant rules and regulation in China. See “Risk Factors – Risks Relating to Our Business and Industry – We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, financial conditions, results of operations and prospects may be materially and adversely affected should any such liability or losses arise.” As of the Latest Practicable Date, we had not experienced any business interruptions that had a material adverse effect on our business.

AWARDS AND RECOGNITIONS

During the Track Record Period, we received awards and recognition in respect of our DLM solutions, technology and innovation, significant ones of which are set forth below:

Award year	Award/Recognition	Awarding Institution/Authority
2021	Specialized and new “little giant” enterprises (專精特新“小巨人”企業)	MIIT
	2021 Top 50 New Economy Pioneer Enterprises in Guangdong-Hong Kong-Macao Greater Bay Area (2021粵港澳大灣區新經濟先鋒企業50強)	Greater Bay Area Technology Innovation Service Center (大灣區科技創新服務中心), Guangdong Venture Capital Association (廣東省創業投資協會), KPMG China (畢馬威中國)
2020	High-tech Enterprise Certificate (高新技術企業證書)	Shenzhen Science and Technology Innovation Committee (深圳市科技創新委員會), Shenzhen Finance Bureau (深圳市財政局), State Taxation Administration, Shenzhen Taxation Bureau (國家稅務總局深圳市稅務局)
2019	2018 Product of the Year Award (2018年度產品獎)	Chinese Academy of Sciences Internet Weekly (中國科學院互聯網週刊) and the Information Research Center of the Chinese Academy of Social Sciences (中國社會科學院信息化研究中心)
	National SME Public Service Demonstration Platform (國家中小企業公共服務示範平台)	MIIT

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LICENSES, PERMITS, AND APPROVALS

As of the Latest Practicable Date, as advised by our PRC Legal Advisor, we had obtained all material licenses and permits required for our business operations (i.e. business licenses of our PRC subsidiaries) in the PRC, and such business licenses had remained in full effect. Our PRC Legal Advisor has advised us that there was no material legal impediment to renewing business licenses for our PRC subsidiaries as of the Latest Practicable Date.

HEALTH, WORK SAFETY, AND ENVIRONMENTAL MATTERS

We are not required to obtain any environmental permits and approvals in relation to our business operations. During the Track Record Period, there had not been any material incidents that constituted a violation of any environmental regulations by us, and no penalty had been imposed on our Group.

Our operations are also subject to occupational health and safety regulations issued by the relevant occupational health and safety authorities in China. We currently do not operate any manufacturing facilities and are not subject to significant health or safety risks. We have taken measures to promote occupational health awareness and safety at workplace. Our Directors confirm that there were no material accidents, work injuries claims for personal or property damages, compensation to staff or any relevant non-compliance incidents with the relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We believe our continued growth rests on integrating social values into our business and are committed to being a responsible corporate citizen. We are committed to promoting corporate social responsibility and sustainable development and integrating it into all major aspects of our business operations. In 2020, we were awarded the certificate of registration of Responsible Recycling issued by Perry Johnson Registrars, Inc. with respect to our dedication in purchase, recycling, testing, resale and data destruction of used IT devices. In addition, we have issued an ESG report in March 2022^(note), which is the first ESG report issued in the DLM industry in China. We believe that corporate social responsibility is part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests.

For users of our platform to better cope with the COVID-19 pandemic, in 2020, we have put in place plans for corporate users to subscribe for IT devices at a reduced cost and enjoy free IT technical subscription services and office emergency pack, continuously providing assistance to corporate customers to reduce the negative financial impact caused by COVID-19 and corporate employees solve work-at-home IT device difficulties. In addition, we have assisted in providing IT devices and IT technical services to support the social work during the COVID-19 pandemic. In February 2021, we were awarded the “Fintech – Overall Contribution Award (金融科技-綜合貢獻獎)” issued by the People’s Government of Futian District of Shenzhen (深圳市福田區委區政府) for our efforts to contribute to society and fulfill our social responsibilities during the COVID-19 pandemic.

Note: The ESG report can be downloaded via https://img.52rental.com/group1/M00/2A/BE/wKgAPW18T2uACIRsAZ_k7UC7PEk620.pdf.

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We aim to reduce any negative impacts on the environment and strive for sustainable development as demonstrated by our DLM solutions, aiming at reducing electronic waste. We aim to decrease the carbon emissions and achieve carbon peaking and carbon neutrality through our efforts, which is in line with PRC government strategic decisions and our green economy values.

Governance Regarding Environmental, Social and Climate-related Risks

Being environmentally-friendly and having positive social impact are at the core of our business and corporate governance. Our business has been reducing electronic waste for enterprises by extending the useful life of electronic IT devices. We have implemented an ESG policy, which provides guidelines to the management of the Group’s environmental, social and climate-related issues. In particular, our policy on the management of severe weather conditions lists out the measures to be taken against the increasingly frequent extreme weather conditions such as typhoons and flooding due to climate change.

We believe that it requires collective effort from our Board of Directors to evaluate and manage material ESG issues, therefore we have not established any sub-committee for ESG issues. Instead, our Board of Directors takes up the responsibility of monitoring and managing material ESG issues, with the assistance from the management. Our Board of Directors is principally responsible for setting up the Group’s overall ESG vision, direction and strategy, monitoring and reviewing our ESG performances and fulfillment of the Board of Directors’ ESG vision. Our Board of Directors has also assigned our chief executive officer to oversee the coordination of different departments to ensure that our operations and practices are in line with related ESG strategies.

Furthermore, our Board of Directors closely follows and monitors the latest requirements regarding ESG disclosure and regulatory compliance. For instance, we place great emphasis on the Stock Exchange’s ESG requirements, and in order to ensure compliance with the said requirements, our Board of Directors and our chief executive officer will oversee the compilation of our ESG report, and shall review the content and quality of the ESG report after the [REDACTED].

With respect to the management of environmental, social and climate-related issues, our Board of Directors recognizes the importance of shareholders’ expectations and involvement, therefore it endeavors to maintain an effective communication channel between shareholders and us. Our Board of Directors has assigned our chief executive officer to identify, monitor and assess material ESG issues, such as climate-related issues. Our Board of Directors then reviews the results from the assessment and conclude on the issues that we shall focus on.

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Impact of Environmental, Social and Climate-related Issues and Opportunities

We acknowledge that climate-related issues pose a certain level of threat to us. Actual and potential climate-related risks identified by us can be classified into two major categories: physical risk and transitional risk. We define physical risks as risks that potentially cause physical impact to us. We believe that climate-related issues may bring about the risk of increasingly severe extreme weather events, such as more frequent storms, typhoons and flooding. We may potentially be impacted by higher operation and maintenance cost, as well as more insurance premium payable for protection. The health and safety of employees may also be endangered.

Due to climate change and climate-related issues, consumers may shift their preferences for products and services, while regulators may require more extensive ESG-related disclosures. Such transitional risks result in additional operating expenses. For example, potential transition risk may arise from technological advancement which may increase our operating costs or affect the competitiveness of our services. With regard to increasing responsibilities on ESG-related disclosure, we may be impacted by increased cost to execute more stringent monitoring measures on pollutant emissions and resource consumption.

Identification, Assessment, Management and Mitigation of Environmental, Social and Climate-related Risks

Our Group conducts enterprise risk assessment at least once a year on current and potential risks faced by us in our business, including, but not limited to the risks related to ESG. In order to manage the environmental, social and climate-related risks, our Board of Directors will adhere to our established ESG policy and measures to tackle the risks identified during the enterprise risk assessment and minimize any potential risks inherent in our business operations.

We have put in place various mitigation and measures to prevent the risks from causing unnecessary impact on our operations. In particular, we have obtained internationally-recognized certifications with respect to our dedication in purchase, recycling, testing, resale and data destruction of used IT devices, such as ISO9001:2015, ISO14001:2015, OHSAS18001:2007, Responsible Recycling (R2) Rev. 7/2013 and GB/T 22080-2016 / ISO / IEC 27001:2013, to regulate and control various risks. We have placed great emphasis in assessing the marketability and conditions of de-commissioned devices before purchasing. Purchases for de-commissioned devices are required to be approved by our senior management team, who have extensive experience in the used electronics industry. We only purchase de-commissioned devices which are in the middle of their useful lives and can be either used in our device subscription business or sold, rather than being disposed of as scrap, the handling of which needs to be carried out by specialized environmental protection companies possessing the required qualifications and in accordance with the relevant PRC laws. Parts being replaced in the process of refurbishment can also be sold via our proprietary quotation platform, through which the purchasers can resell or reuse after repairing. Supervisors will also be assigned to monitor the refurbishment process to ensure the practices about responsible recycling are being complied with. We also regularly perform maintenance of our facilities, equipment and IT devices to minimize the risk of unmaintained facilities, equipment and IT devices causing damage to our office space, and the health and safety of employees and staff.

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To mitigate climate-related risks such as more frequent extreme weather conditions, we have put in place emergency plans against extreme weather conditions where employees and other personnel are notified promptly with any related measures.

Furthermore, we will consult professional parties whenever necessary to ensure compliance with evolving requirements on resource consumption disclosures, and regularly communicate with different stakeholders on their views on climate-related issues.

Metrics and Targets on Environmental, Social and Climate-related Risks

Major parameters and measurable metrics we use to assess and manage our environmental, social and climate-related risks include water consumption and electricity consumption. We typically do not generate electronic waste by ourselves from the disposal and refurbishment of IT devices or otherwise, as the de-commissioned devices we purchase are in the middle of their useful lives and can be either used in our device subscription business or sold via our proprietary quotation or e-commerce platforms, rather than being disposed of as scrap, the handling of which needs to be carried out by specialized environmental protection companies possessing the required qualifications and in accordance with the relevant PRC laws. Parts being replaced in the process of refurbishment can also be sold via our proprietary quotation platform, through which the purchasers can resell or reuse after repairing. These companies are required by the relevant PRC laws to obtain such environmental related qualifications. As a result, we did not generate any significant environmental compliance cost during the Track Record Period.

We have taken into account the quantitative information that reflect our management for environmental, social and climate-related risks, which includes resource consumption. We also have established a comprehensive set of key performance indicators (“KPIs”) to constrain and guide our business operations with a view of a sustainable development. The table below sets forth a quantitative presentation of our resource consumption during the Track Record Period.

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
	<i>(RMB)</i>				
Water consumption	41,536	28,930	46,554	17,040	18,513
Electricity consumption	795,498	687,148	794,247	286,459	396,368

Our consumption on water and electricity generally increased during the Track Record Period, except that there was a decrease in 2020 which was due to COVID-19 subsidies provided by landlords as encouraged by the Shenzhen government, resulting in a reduction in water and electricity bills.

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We currently do not operate any manufacturing facilities and are not subject to significant environmental risks. As advised by CIC, the DLM solution providers hardly produce carbon and pollutant emissions in the ordinary course of business as their operations involve neither significant consumption of fossil fuels nor release of contaminants to the environment. In 2017, Chinese National Development and Reform Commission has listed eight industries as targets for carbon emission control, and the DLM market is not included in such list. Accordingly, there is no benchmark or industry average level of resource consumption and pollutant emissions for the comparison of our environmental performance with the industry peers. Therefore, we do not expect to incur any material liabilities or expenditures in these respects. As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with all relevant ESG laws and regulations in material aspects. In addition, during the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, we had not been subject to any fines or other penalties due to non-compliance with environmental regulations.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, we had not been and were not a party to any legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors, except for certain lawsuits arising from the ordinary course of business which would not individually or in the aggregate, have a material adverse effect on our business, financial condition, and results of operations. See “– Employees” and “Risk Factors – Risks Relating to Our Business and Industry – We are subject to risks relating to litigation and disputes, which could adversely affect our business, prospects, results of operations and financial condition.” According to our PRC Legal Advisor, our business operations had been carried out in compliance with applicable laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

See “– Employees – Social Insurance and Housing Provident Fund Contribution” and “– Land and Properties – Leased Properties” in this section for a description of certain legal matters relating to our compliance with PRC employment and real property related laws and regulations which our Directors consider would not have a material and adverse effect on our business, financial condition, or results of operations. Our Directors are of the view that our Group has in place adequate internal control measures to ensure ongoing compliance with applicable laws and regulations.

RISK MANAGEMENT AND INTERNAL CONTROL

It is the responsibility of our Board to ensure that we maintain sound and effective internal controls and risk management system to safeguard our Shareholders’ investment and our assets at all times. We maintain internal manuals setting out operating procedures, internal control procedures and other policies and guidelines. We also adopted and implemented comprehensive risk management policies in various aspects of our business operations, such as IT, financial reporting, compliance, and human resources.

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Our Board of Directors and our chief executive officer are responsible for the establishment, updating and implementation of our internal control policies and systems, while our senior management monitors the daily implementation of the internal control procedures and measures with respect to each subsidiaries and functional departments. As of the Latest Practicable Date, we employed more than 20 experienced risk management staff to operate and enforce our internal control and risk management policies.

Compliance Risk Management

In order to effectively manage our compliance and legal risk exposures, we have adopted strict internal procedures to ensure the compliance of our business operations with the applicable rules and regulations. In accordance with these procedures, our in-house legal department performs the basic function of reviewing and updating the form of contracts we enter into with our customers, partners, and suppliers. Our legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations of business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities, within the prescribed regulatory timelines. We continuously improve our internal policies according to changes in laws, regulations and industry standards, and update internal templates for legal documents. We undertake compliance management over various aspects of our operations and employee activities. We have also established an accountability system in respect of employees' violations of laws, regulations and internal policies. In addition, we continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

In terms of anti-bribery and anti-corruption, we have implemented specific policies and internal control measures against corruption and bribery, which set forth procedures for identifying potential corruption, implementing relevant anti-corruption procedures and setting out anti-corruption responsibilities for relevant personnel. We strictly prohibit bribery or other improper payments in any of our business operations according to our anti-bribery and anti-corruption policies. This prohibition applies to all business activities, whether involving government officials, influential personnel or private or public payors. Improper payments prohibited by these policies include bribes, kickbacks, excessive gifts or entertainment, or any other payment made or offered to obtain an undue business advantage. Moreover, we keep accurate books and records that reflect transactions and asset dispositions in reasonable detail. We specifically require that the employees submit all reimbursement requests related to entertainment expenditure or gifts presented to third parties on behalf of the company in accordance with our anti-bribery and anti-corruption policies, and specifically record the reason for the expenditure. Any entertainment expenditure exceeding certain amount per person and any expenditure incurred for entertainment not related to business meetings must

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be approved in advance by our compliance officer. Payment made in violation of anti-bribery and anti-corruption policies is strictly prohibited. Our compliance department is responsible for investigating the reported incidents and taking appropriate measures as necessary. We provide employees with adequate communication channels and encourage employees to take the initiative to seek guidance from us regarding the implementation of anti-corruption policies. We conduct anti-corruption compliance check and inspections regularly on employees and senior personnel. We also have an employee code of conducts in place, which contains internal rules and guidelines regarding basic working rules, work ethics, confidentiality, negligence, anti-bribery and anti-corruption. We provide our employees with regular training and resources to explain the guidelines contained in the employee code of conducts.

Asset Security Risk Management

We are exposed to asset security risk with our device subscription services as customers may damage or lose our IT devices, or we are unable to reclaim actual control or possession of the IT devices. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, we experienced 35, 683, 1,920, 652 and 1,293 incidents, respectively, of loss or damage to our devices from customers during the subscription period, who indemnified us of RMB0.02 million, RMB0.4 million, RMB1.2 million, RMB0.4 million and RMB0.6 million, respectively. We experienced an increase in the number of incidents of loss or damage to our devices from customers in 2021 due to a continued increase of our customers and growing numbers of devices for subscription in such year. See “Risk Factors – Risks Relating to Our Business and Industry – We are exposed to credit risk associated with our customers and the recoverability of our trade and lease receivables and IT devices are subject to uncertainties.” In order to mitigate the risk, we have developed a risk control system model that integrates an online intelligent credit profile review system and an offline manual assistance mechanism to assess customers’ credibility and potential risks. In specific, our risk management team manages our customers and assesses their credit risk through our online intelligent credit profile review system according to customers’ respective risk profiles, and only those who pass the risk assessment can enroll for our device subscription service. We also manually review the actual office address of our customers. When delivering and providing maintenance on IT devices to customers, we conduct on-site inspection to the customers’ office space in order to assess and manage the risks attributable to our customers, and decide whether to recover IT devices in advance when necessary. If the customer causes any loss or damage to our devices during the subscription period, we would take various measures, including claiming compensation and offering customers the option to buy out the lost or damaged device.

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Credit Risk Management

We are exposed to the credit risks associated with our DLM business. In order to mitigate the credit risks and ensure the collectability of trade and lease receivables in our transactions, we have delegated a team responsible for determination of credit limits and credit approvals, and have adopted credit risk measures to review and monitor our trade and lease receivables from time to time, including implementing security measures and monitoring procedures on customers. Before accepting any new customers, we use Bear Big Data Intelligent Credit Granting Platform, a proprietary software, to assess the creditworthiness of potential customers and determine their appropriate credit limits individually. The line of credit and scoring attributed to customers are reviewed regularly in order to effectively monitor our customers. These procedures are designed to provide us with the information needed to implement adjustments where necessary, and to take proactive corrective actions in time.

In addition, in order to manage our exposure to credit risk, we have adopted credit management policies and procedures that are reviewed and updated by our risk management team in conjunction with other relevant departments. We have adopted procedures to deal with material overdue payments, which include (i) close monitoring of material overdue payments; (ii) evaluation of the risk based on factors such as its payment history, and the general economic environment; and (iii) designing of appropriate follow-up actions such as making phone calls, issuing demand letters, visiting the customer’s office and initiating legal proceedings. However, we cannot assure that we are able to collect all trade and lease receivables. See “Risk Factors – Risks relating to Our Business and Industry – We are exposed to credit risk associated with our customers and the recoverability of our trade and lease receivables and IT devices are subject to uncertainties.”

IMPACT OF COVID-19 PANDEMIC

Since December 2019, a novel strain of COVID-19 has severely impacted China and many other countries. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. With an aim to containing the COVID-19 outbreak, the PRC government has imposed restricted measures across the PRC. Although many of the measures within China have been relaxed since the second quarter of 2020, restrictions were re-imposed in certain cities from time to time. Specifically, due to the prohibition of gathering, our short-term device subscription services for exhibitions and conferences and other business activities have been adversely impacted. At the same time, we grabbed the market opportunities for providing many companies with office computers and devices when their employees worked from home and had meetings at home. However, owing to the accelerated penetration of the overall DLM market during the COVID-19 pandemic and diversified service portfolio we provide, our business has not been adversely impacted by COVID-19 in all material aspects. Therefore, the impact of the COVID-19 on our revenue is not substantial.

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We have employed various measures to mitigate any impact the COVID-19 outbreak may have on our business in China, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. We also provided our employees with protective equipment such as masks and hand sanitizers immediately after the outbreak, which had increased and may continue to increase our operations and support costs. In addition, our business operations could be disrupted if any of our employees is suspected of contracting COVID-19 or any other epidemic disease, since our employees could be quarantined, and our offices may have to be shut down for disinfection. However, there are significant uncertainties remained for the COVID-19 pandemic and the future development of the disease. For risks relating to potential future outbreak of COVID-19, see “Risk Factors – Risks Relating to Our Business and Industry – Any future occurrence of a natural disaster, health epidemic or similar development could have a material adverse effect on our business. In particular, the COVID-19 outbreak had and may continue to have a negative impact on our business, financial condition and results of operations.”

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the Capitalisation Issue and the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], Mr. Hu will be in control of [REDACTED]% of the issued share capital of our Company through (i) Bear Family, an investment holding company wholly owned by Mr. Hu; (ii) Little Bear, an investment holding company which Mr. Hu holds the entire voting rights; (iii) LX Brothers, our Company’s offshore employee incentive platform for LX Brothers Employee Incentive Plan in which the entire voting rights were exercised under the instruction of Mr. Hu; and (iv) Beauty Bear, a platform holding Shares for Beauty Bear Employee Incentive Plan in which the entire voting rights were exercised under the instruction of Mr. Hu. Accordingly, Mr. Hu, Bear Family, Little Bear, LX Brothers and Beauty Bear constitute a group of our Controlling Shareholders under the Listing Rules.

Mr. Hu is our founder, chairman of our Board, our chief executive officer and our executive Director. Further details of his background are set out in the section headed “Directors and Senior Management – Board of Directors – Executive Directors” of this document.

DELINEATION OF BUSINESS

Apart from our Group’s business, our Ultimate Controlling Shareholder has non-controlling interests in certain companies which are principally engaged in the business of production and sale of electrical appliances and related connectors and moulds for production of electronic appliances, which are not IT devices, and provision of agricultural SaaS. Taking into account we are principally engaged in the provision of device subscription services, IT technical subscription services, device management SaaS and device recycling business, our Directors are therefore of the view that there is no competition between the businesses of our Group and our Controlling Shareholders and their respective close associates. During the Track Record Period, our Group did not have any transactions with the companies our Ultimate Controlling Shareholder having non-controlling interests.

As of the Latest Practicable Date, none of our Controlling Shareholders, his/its close associates and our Directors had any interest in any business which competes or is likely to compete, directly or indirectly, with our businesses which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and his/its close associates after the [REDACTED] for the following reasons:

Management Independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Hu is our executive Director and also our Ultimate Controlling Shareholder. Other than Mr. Hu, none of our Directors is holding any position in our Controlling Shareholders and their close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among others, that he or she must act for the benefit of and in the best interests of our Company and not allow any conflict between his or her duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting on the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, other than Mr. Hu, we have an independent senior management team to carry out the business operation of our Group independently from our Controlling Shareholders. Further, we believe our independent non-executive Directors will bring independent judgment to the decision-making process of our Board. See “– Corporate Governance Measures” for further details.

Based on the reasons above, our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates following the [REDACTED].

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in us after [REDACTED], we have full rights to make all decisions on, and to carry out, our own business operations independently. Our Company, through our subsidiaries, holds the licenses, qualifications and intellectual property necessary to carry on our current business, and has sufficient capital, facilities, technology and employees to operate the business independently from our Controlling Shareholders and their close associates. We have access to third parties independently from and not connected to our Controlling Shareholders and their close associates for sources of suppliers and customers.

Based on the above, our Directors are satisfied that we will be able to function and operate independently from our Controlling Shareholders and their close associates.

Financial Independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, and reporting functions of our Group, independent from our Controlling Shareholders and their close associates. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. We maintain bank accounts with banks independently and do not share any bank accounts with our Controlling Shareholder and their respective associates. We have adopted a set of internal control procedures for cash receipts and payment and have independent access to third-party financing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As of Latest Practicable Date, we did not have amount due to/from our Controlling Shareholders and their close associates. All loans and guarantees due to or from our Controlling Shareholders and their close associates will be fully settled or released before [REDACTED].

Based on the above, we believe we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders and their respective close associates:

- (a) as part of our preparation for the [REDACTED], we have amended our Articles to comply with the Listing Rules. In particular, our Articles provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his or her associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests shall make full disclosure in respect of matters that may have conflict or potentially conflict with any of our interest and abstain from the board meetings on matters in which such Director or his or her associates have a material interest, unless attendance or participation of such Director at such meeting of our Board is specifically requested by a majority of our independent non-executive Directors;
- (c) we are committed that our Board should include in balanced composition of executive Directors, non-executive Director and independent non-executive Directors. We have appointed independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management” in this document;
- (d) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules; and
- (e) we have appointed Haitong International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

CONNECTED TRANSACTIONS

Our Group has entered into a number of agreements with Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) (“**Beijing JD**”) who will, upon completion of the [REDACTED], become our connected person, and the transactions disclosed in this section will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules upon [REDACTED].

CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPTED FROM THE CIRCULAR AND INDEPENDENT SHAREHOLDERS’ APPROVAL REQUIREMENTS

1. Subscription Services

On [●], 2022, our Company entered into a subscription services framework agreement (the “**Subscription Services Framework Agreement**”) with Beijing JD, pursuant to which our Group agreed to provide device subscription services and IT technical subscription services to JD Group (the “**Subscription Services**”) and charge certain subscription fee. The Subscription Services Framework Agreement has a term commencing from the [REDACTED] to December 31, 2024, which may be renewed as the parties may mutually agree, subject to compliance with the requirements under the Listing Rules and all other applicable laws and regulations. The individual subscription services agreements to be entered into between members of our Group and JD Group shall only contain provisions which are, in all material aspects, consistent with the binding principles, guidelines, terms and conditions set out in the Subscription Services Framework Agreement.

For each of the three years ended December 31, 2021 and the six months ended June 30, 2022, the revenue from JD Group for the Subscription Services amounted to approximately RMB0.4 million, RMB2.3 million, RMB4.2 million and RMB2.4 million, respectively.

The fees to be charged for the Subscription Services shall be determined on arm’s length basis with reference to (i) the anticipated costs (including but not limited to labor costs and equipment costs); and (ii) the fee charged by us for providing comparable services to Independent Third Parties.

Our Directors expect the maximum annual fees to be charged for the Subscription Services for each of the three years ending December 31, 2024 will not exceed RMB6.0 million, RMB9.0 million and RMB13.0 million, respectively.

CONNECTED TRANSACTIONS

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amounts for the year ended December 31, 2021 and the six months ended June 30, 2022;
- the estimated revenue to be recognized in relation to the Subscription Services provided by us, based on the existing contracts with JD Group; and
- the estimated demand from JD Group in relation to the Subscription Services, based on the commercial negotiation between our Group and JD Group.

Beijing JD is ultimately controlled by JD.com, the controlling shareholder of one of our substantial shareholders: Tigris Innovation Limited (“**JD BVI**”). Beijing JD is an associate of JD BVI. Therefore, it is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transactions under the Subscription Services Framework Agreement will constitute continuing connected transactions for our Group under Chapter 14A of the Listing Rules upon [**REDACTED**].

As each of the applicable percentage ratios under the Listing Rules in respect of the annual caps under the Subscription Services Framework Agreement is expected to be more than 0.1% but less than 5% on an annual basis, the transactions under the Subscription Services Framework Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review and announcement requirements but exempted from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

2. Purchase of Devices

On [●], 2022, our Company entered into a purchase framework agreement (the “**Purchase Framework Agreement**”) with Beijing JD, pursuant to which our Group will purchase from JD Group certain new and second-hand devices, including but not limited to desktop, laptop computers, printers and photocopiers. The Purchase Framework Agreement has a term commencing from the [**REDACTED**] to December 31, 2024 which may be renewed as the parties may mutually agree, subject to compliance with the requirements under the Listing Rules and all other applicable laws and regulations. The individual purchase agreements to be entered into between members of our Group and JD Group shall only contain provisions which are, in all material aspects, consistent with the binding principles, guidelines, terms and conditions set out in the Purchase Framework Agreement.

CONNECTED TRANSACTIONS

For each of the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the amount of purchase from JD Group for the purchase of new and second-hand devices amounted to approximately RMB73.8 million, RMB52.7 million, RMB41.5 million and RMB14.2 million, respectively. The decrease of purchasing from the year ended December 31, 2019 to the year ended December 31, 2021 was primarily due to the decrease in purchase of second-hand IT devices from JD Group from 2019 to 2021, which was mainly affected by the disposal plans and less supply of second-hand IT devices by JD Group. For details of the historical transaction amounts of purchase of new and second-hand devices, please refer to the table below.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
	<i>(RMB'000)</i>			
New devices	16,878	19,338	26,049	8,428
Second-hand devices	<u>56,920</u>	<u>33,370</u>	<u>15,464</u>	<u>5,754</u>
Total	<u>73,798</u>	<u>52,708</u>	<u>41,513</u>	<u>14,182</u>

The purchase prices of the devices will be determined on arm's length basis with reference to the prevailing market price of the similar devices the Group pays to Independent Third Parties.

Our Directors estimate that the maximum annual amount payable by our Group under the Purchase Framework Agreement for each of the three years ending December 31, 2024 will not exceed RMB43.0 million, RMB46.0 million and RMB50.0 million, respectively. The increase of estimated transaction amount for the two years ending December 31, 2024 under the Purchase Framework Agreement is in line with our Group's business demand and estimated growth for such period. Please refer to the table below for an estimated breakdown of such annual caps by new and second-hand devices.

	For the year ending December 31,		
	2022	2023	2024
	<i>(RMB'000)</i>		
New devices	27,000	28,000	30,000
Second-hand devices	<u>16,000</u>	<u>18,000</u>	<u>20,000</u>
Total	<u>43,000</u>	<u>46,000</u>	<u>50,000</u>

CONNECTED TRANSACTIONS

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amounts for the year ended December 31, 2021 and the six months ended June 30, 2022;
- the estimated purchases of new and second-hand devices by us based on the commercial negotiation between our Group and JD Group in respect of supplying of new and second-hand devices by JD Group; and
- the estimated increase in demand of our Group taking into account the business expansion of our Group for the two years ending December 31, 2024.

Beijing JD is ultimately controlled by JD.com, the controlling shareholder of JD BVI. Beijing JD is an associate of JD BVI. Therefore, it is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transactions under the Purchase Framework Agreement will constitute continuing connected transactions for our Group under Chapter 14A of the Listing Rules upon [REDACTED].

As each of the applicable percentage ratios under the Listing Rules in respect of the annual caps under the Purchase Framework Agreement is expected to be more than 0.1% but less than 5% on an annual basis, the transactions under the Purchase Framework Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review and announcement requirements but exempted from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

3. Marketing, Promotion and Maintenance Services

On [●], 2022, our Company entered into a master marketing, promotion and maintenance services framework agreement (the “**Marketing, Promotion and Maintenance Services Framework Agreement**”) with Beijing JD, pursuant to which JD Group agreed to provide certain marketing, promotion and maintenance services to our Group, which mainly include advertising and promotion services, and customer acquisition services (the “**Marketing, Promotion and Maintenance Services**”). The Marketing, Promotion and Maintenance Services Framework Agreement has a term commencing from the [REDACTED] to December 31, 2024, which may be renewed as the parties may mutually agree, subject to compliance with the requirements under the Listing Rules and all other applicable laws and regulations. The individual marketing, promotion and maintenance services agreements to be entered into between members of our Group and JD Group shall only contain provisions which are, in all material aspects, consistent with the binding principles, guidelines, terms and conditions set out in the Marketing, Promotion and Maintenance Services Framework Agreement.

For each of the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the total amount of services received from JD Group amounted to approximately RMB12.3 million, RMB16.0 million, RMB24.0 million and RMB9.2 million, respectively.

CONNECTED TRANSACTIONS

The fees to be charged for the Marketing, Promotion and Maintenance Services will be determined after arm’s length negotiations with reference to the prices published by JD Group on their websites and charged to other customers for providing similar services.

Our Directors estimate that the maximum annual amount payable by our Group under the Marketing, Promotion and Maintenance Services Framework Agreement for each of the three years ending December 31, 2024 will not exceed RMB24.0 million, RMB25.0 million and RMB30.0 million, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amounts during the Track Record Period; and
- the estimated demand of our Group on Marketing, Promotion and Maintenance Services taking into account the business expansion of our Group and our cooperation with JD.com for the two years ending December 31, 2024.

Beijing JD is ultimately controlled by JD.com, the controlling shareholder of JD BVI. Beijing JD is an associate of JD BVI. Therefore, it is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transactions under the Marketing, Promotion and Maintenance Services Framework Agreement will constitute continuing connected transactions for our Group under Chapter 14A of the Listing Rules upon [REDACTED].

As each of the applicable percentage ratios under the Listing Rules in respect of the annual caps under the Marketing, Promotion and Maintenance Services Framework Agreement is expected to be more than 0.1% but less than 5% on an annual basis, the transactions under the Marketing, Promotion and Maintenance Services Framework Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review and announcement requirements but exempted from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

APPLICATION FOR WAIVER

The transactions described in “– Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but exempt from the Circular and Independent Shareholders’ Approval Requirements” in this section constitute our continuing connected transactions under the Listing Rules, which are exempt from the circular and independent Shareholders’ approval requirements but subject to the reporting, annual review and announcement requirements of the Listing Rules.

CONNECTED TRANSACTIONS

In respect of these continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted], waivers exempting our Group from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transaction as disclosed in “– Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but exempt from the Circular and Independent Shareholders’ Approval Requirements” in this section, subject to the condition that the aggregate amounts of the continuing connected transactions for each financial year shall not exceed the relevant amounts set forth in the respective annual caps (as stated above). Apart from the above waivers sought on the strict compliance of the announcement, circular and independent Shareholders’ approval requirements, we will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of the transactions contemplated under the agreements mentioned above are altered or if our Company enters into any new agreements with any connected person in the future, we will fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

DIRECTORS’ VIEWS

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described in “– Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but exempt from the Circular and Independent Shareholders’ Approval Requirements” in this section have been and will be carried out (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) in accordance with the respective terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Directors (including our independent non-executive Directors) are also of the view that the annual caps of the continuing connected transactions in “– Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but exempt from the Circular and Independent Shareholders’ Approval Requirements” in this section are fair and reasonable and are in the interests of our Shareholders as a whole.

SOLE SPONSOR’S VIEW

The Sole Sponsor is of the view that (i) the continuing connected transactions described in “– Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but exempt from the Circular and Independent Shareholders’ Approval Requirements” in this section have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or better, that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) the proposed annual caps (where applicable) of such continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board currently consists of seven Directors comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board’s work at our Shareholders’ meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and exercising other powers, functions and duties as conferred by the Articles. We [have entered into] service agreements with each of our executive Directors. We [have also entered into] letters of appointment with our non-executive Director and each of our independent non-executive Directors.

The following table sets forth certain information in respect of members of our Board and senior management of our Company:

Members of our Board

Name	Age	Date of joining our Group	Date of appointment as Director	Existing position(s) in our Group	Roles and responsibilities in our Group
Hu Zuoxiong (胡祚雄)	44	November 2004	January 10, 2022	Chairman of the Board, chief executive officer and executive Director	Overall management, operation and strategic planning of our Group
Chen Xiuwei (陳修偉)	36	December 2019	January 10, 2022	Executive Director, chief technology officer and vice president	Application of information technology and research and development of our Group
Cao Weijun (曹維軍)	35	March 2012	January 10, 2022	Executive Director and general manager of the strategic customer center	Customer development and strategic business development of our Group
Li Jing (李靖)	41	November 2021	March 28, 2022	Non-executive Director	Providing insights for the management, operation and strategic planning of our Group

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Director	Existing position(s) in our Group	Roles and responsibilities in our Group
Kam Chi Sing (甘志成)	51	September 27, 2022	September 27, 2022	Independent non-executive Director	Providing independent advice on the operation and management of our Group
Xu Nailing (徐乃玲)	56	September 27, 2022	September 27, 2022	Independent non-executive Director	Providing independent advice on the operation and management of our Group
Zhao Jinlin (趙晉琳)	53	September 27, 2022	September 27, 2022	Independent non-executive Director	Providing independent advice on the operation and management of our Group

Members of our senior management

Our senior management comprises our executive Directors, namely Mr. Hu, Mr. Chen Xiuwei, Mr. Cao Weijun, and the following members:

Name	Age	Date of joining our Group	Date of appointment as senior management	Existing position(s) in our Group	Roles and responsibilities in our Group
Jiang Zeli (蔣澤立)	40	May 2019	May 2019	Chief financial officer and vice president	Responsible for and overseeing the financial management of our Group
Liu Yan (劉炎)	32	August 2018	August 2018	Joint company secretary and general manager of the funding center	Responsible for and overseeing corporate financing and company secretarial matters

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Hu Zuoxiong (胡祚雄), aged 44, founded our Group in November 2004 and has been the chairman of the board, the chief executive officer and the director of our Group since our Group’s establishment. He was appointed as our Director on January 10, 2022 and was re-designated as our executive Director on March 24, 2022. He is responsible for the overall management, operation and strategic planning of our Group.

Mr. Hu has extensive experience in the DLM industry and has about 20 years of experience in corporate management, corporate governance and information technology industry. Owing to Mr. Hu’s practical experience in digital transformation and upgrading in Internet+ and industrial internet, Mr. Hu was appointed as the visiting professor of Southwest Jiaotong University (西南交通大學) in the PRC since May 2018. Mr. Hu was also appointed as the vice president of China Association of Small and Medium Enterprises (中國中小企業協會) and Shenzhen Chamber of Commerce (深圳市商業聯合會) in July 2019 and May 2018, respectively.

Mr. Hu was named as one of the “Pioneers of Digital Transformation in China” (中國數字化轉型先鋒人物) in Harvard Business Review in November 2019. In September 2020, a report setting out the success of the digital transformation of the Group led by Mr. Hu was named as a collected case by the Management Case Research Center of Guanghua School of Management (光華管理學院) of the Peking University (北京大學) in the PRC.

Mr. Hu obtained a junior college diploma of building materials engineering from Hubei Polytechnic University (湖北理工學院) in the PRC in June 1998.

Mr. Chen Xiuwei (陳修偉), aged 36, was appointed as the chief technology officer and the vice president of our Group in December 2019. He was appointed as our Director on January 10, 2022 and was re-designated as our executive Director on March 24, 2022. He is responsible for application of information technology and research and development of our Group.

Mr. Chen has about 12 years of experience in architecture design, algorithms, research and development of information systems, big data analysis and artificial intelligence. Prior to joining our Group, from July 2010 to April 2011, Mr. Chen served as an assistant researcher at Microsoft Research Asia (微軟亞洲研究院), an institute specialised in computer science and related technology researches, where he was primarily responsible for the system development. From April 2011 to August 2013, Mr. Chen served as chief technology officer and as one of the founders of several TMT (Technology, Media, Telecom) companies in the PRC, which he was primarily responsible for research and development. From August 2013 to August 2017, he served as the chief technology officer and vice president of NNK Group Limited, an online transaction services provider listed on the Main Board of the Stock Exchange (stock code: 3773), where he was primarily responsible for research and development. From September 2017 to December 2019, Mr. Chen served as the chief architect and project delivery director of South China Region of Shenzhen Qianhai No. 4 Paradigm Data Technology Co., Ltd. (深圳市前海第四範式數據技術有限公司), a company specialised in AI technology and related services, where he was primarily responsible for system development and project delivery.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen received a bachelor’s degree in computer science and technology and a master’s degree in computer software and theory from Sun Yat-Sen University (中山大學) in the PRC in June 2008 and in June 2010, respectively. He received the “Changchun Site – Gold Medal” for his participation in the ACM Asia Programming Contest in November 2007.

Mr. Cao Weijun (曹維軍), aged 35, was appointed as the general manager of the strategic customer center of our Group in March 2012. He was appointed as our Director on January 10, 2022 and was re-designated as our executive Director on March 24, 2022. He is primarily responsible for customer development and strategic business development of our Group.

Prior to joining our Group, from September 2008 to March 2012, Mr. Cao worked at China Investment Securities Co., Ltd. (中國中投證券有限責任公司), an investment bank and brokerage firm in the PRC.

Mr. Cao obtained a junior college diploma of biotechnology and applications from Wuhan University of Bioengineering (武漢生物工程學院) in the PRC in July 2008.

Non-executive Director

Mr. Li Jing (李靖), aged 41, was appointed as our non-executive Director on March 28, 2022. He is primarily responsible for providing insights for the management, operation and strategic planning of the Group.

Mr. Li joined JD.com in October 2014 and is currently the vice president of JD.com and the president of corporate business division of JD Retail, where he is primarily responsible for the development, operation and strategic planning of corporate retail businesses. Since joining JD.com, Mr. Li has continued to provide support to corporate customers by leading the construction of corporate focused supply chain, implementation of strategy-to-execution system and has successfully promoted innovative and indomitable team culture. During his job rotation to the strategic cooperation division of JD.com, he launched several benchmark strategic cooperation projects. Prior to joining JD.com, from March 2005 to October 2014, Mr. Li worked at Lenovo Group Ltd., a technology company listed on the Main Board of the Stock Exchange (stock code: 992).

Mr. Li obtained a bachelor’s degree in engineering from the Northern Jiaotong University (北方交通大學) (now known as Beijing Jiaotong University (北京交通大學)) in the PRC in June 2002.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Kam Chi Sing (甘志成), aged 51, was appointed as our independent non-executive Director on September 27, 2022. He is primarily responsible for providing independent advice on the operation and management of our Group.

Mr. Kam has over 22 years of experience in management accounting, auditing and assurance, taxation, corporate services and cross border merger and acquisition consultation in Hong Kong and China. Mr. Kam established Roger Kam & Co., a certified public accounting firm in Hong Kong, in May 2000, and R&T Consulting Group Limited (“**R&T Consulting**”), a business consulting firm in Hong Kong, in July 2009. Mr. Kam is currently serving as the managing partner at Roger Kam & Co, the managing director at R&T Consulting and the chief representative of the representative offices of Roger Kam & Co in Shanghai, Guangzhou and Beijing. Mr. Kam was also appointed as an independent non-executive director of Excellence Commercial Property & Facilities Management Group Limited (stock code: 6989) on 28 September 2020 and the company secretary of Xinji Shaxi Group Co., Ltd (stock code: 3603) on 11 March 2019, both of which are listed on the Main Board of the Stock Exchange.

Mr. Kam is a founding member of the Alliance of Inter-Continental Accountants and has been registered as a certified tax adviser and a chartered tax adviser by the Taxation Institute of Hong Kong since 2011 and 2020, respectively. He was admitted as a fellow member of the Association of Chartered Certified Accountants in November 2003, a fellow member of the Hong Kong Institute of Certified Public Accountants in April 2006, a fellow member of the Institute of Financial Accountants in March 2011, a fellow member of the Taxation Institute of Hong Kong in January 2010, a member of the Society of Trust and Estate Practitioners in April 2012 and a member of the Hong Kong Securities and Investment Institute in June 2013, respectively. He is a committee member of the taxation committee, a committee member of the financial and treasury services committee and a committee member of the China committee of Hong Kong General Chamber of Commerce. He has also been serving as a committee member of the Chinese General Chamber of Commerce, Hong Kong since November 2016. Mr. Kam was appointed as a member and honorary treasurer of Hong Kong Red Cross Special Education & Rehabilitation Service Governing Committee in November 2013, and school manager and treasurer of the Incorporated Management Committee (“**IMC**”) of Hong Kong Red Cross Princess Alexandra Schools in July 2020.

Mr. Kam obtained his bachelor’s degree of science from the University of Hong Kong in November 1993.

Ms. Xu Nailing (徐乃玲), aged 56, was appointed as our independent non-executive Director on September 27, 2022. She is primarily responsible for providing independent advice on the operation and management of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Xu has over 30 years of experience in the finance and investment industry. From July 1986 to December 1992, Ms. Xu served in various subunits of The People’s Bank of China, including Finance College of China (中國金融學院) and China Rural Development Trust and Investment Corporation (中國農村發展信託投資公司). From May 1997 to December 2008, Ms. Xu worked in the Guangzhou branch of China Everbright Bank, which she was primarily responsible for finance, internal audit and legal compliance matters. Ms. Xu joined Ping An Bank Co., Ltd. from January 2009 to September 2012 as the assistant to president of the Guangzhou Branch, deputy general manager of the audit and supervision department and the deputy manager of the risk management department, where she was responsible for overseeing finance, operations, legal compliance, office security, audit supervision and risk management related work. From September 2012 to January 2021, Ms. Xu served in China Everbright Environment Group Limited (“CEE”, formerly known as China Everbright International Ltd.), a company listed on the Main Board of the Stock Exchange (stock code: 257), where she served various roles including the deputy chief finance director of CEE, the executive director of China Everbright Water Limited (a subsidiary of CEE), a company listed on the Main Board of the Stock Exchange (stock code: 1857), and the director and finance director of Everbright Environmental Protection (China) Company Limited (光大環保(中國)有限公司) (a subsidiary of CEE), where she was primarily responsible with finance, budgeting, financing, intermediary agency management and risk management work.

Ms. Xu is a senior economist certified by Shenzhen Human Resources and Social Security Bureau in May 2017. Ms. Xu obtained a junior college diploma of Urban Finance from Harbin Finance College (哈爾濱金融高等專科學校) in the PRC in July 1986. Ms. Xu also obtained a bachelor’s degree in finance profession through long distance learning from Southwestern University of Finance and Economics (西南財經大學) in the PRC in July 2004 and a master’s degree in executive business management from Xiamen University (廈門大學) in the PRC in September 2015.

Ms. Zhao Jinlin (趙晉琳), aged 53, was appointed as our independent non-executive Director on September 27, 2022. She is primarily responsible for providing independent advice on the operation and management of our Group.

Ms. Zhao has over 27 years of experience in the tax industry. Ms. Zhao is currently a professor in the School of Economics of Shenzhen University, which she joined in June 2006 and is primarily responsible for teaching and researches. Ms. Zhao is a committee member of China International Taxation Research Institute. She was appointed as an independent non-executive director of NNK Group Limited (stock code: 3773) since November 2014, a company listed on the Main Board of the Stock Exchange. Ms. Zhao was also appointed as an independent non-executive director of Shahe Industrial Co., Ltd (沙河實業股份有限公司) (stock code: 000014.SZ) since April 2021 and The Inovance Group (深圳市匯川技術股份有限公司) (stock code: 300124.SZ) since May 2021, both of which are listed on the Shenzhen Stock Exchange.

Ms. Zhao is a professor in accounting certified by Guangdong Provincial Department of Personnel (廣東省人事廳) in February 2010. Ms. Zhao received a bachelor’s degree in welding from the Xi’an Jiaotong University (西安交通大學) in July 1989, a master’s degree in accounting from Southwestern University of Finance and Economics (西南財經大學) in June 1995 and a doctor of philosophy degree in accounting from Jinan University (暨南大學) in January 2005.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed in this section, each of our Directors had no other relationship with any Directors, senior management, substantial shareholders or controlling shareholders of our Company and none of our Directors have held any other directorships in listed companies during the three years immediately preceding the date of this document.

Each of our Directors has confirmed that there are no other matters relating to his/her appointment as a Director that need to be brought to the attention of our Shareholders and there was no other information relating to his/her appointment which is required to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Our executive Directors and members of our senior management are responsible for the day-to-day operations and management of the business of our Group. For the biographical details of our executive Directors, please refer to “Executive Directors” in this section.

Mr. Jiang Zeli (蔣澤立), aged 40, joined our Group as the chief financial officer and vice president in September 2019. He is primarily responsible for and overseeing the financial management of our Group.

Mr. Jiang has about 20 years of experience in audit, accounting, financial management and financial reporting of listed companies. Prior to joining our Group, from July 2004 to July 2009, he served in an accounting firm, where he was primarily responsible for listed companies audit-related work. From March 2010 to December 2014, he served as finance manager at Tang Palace (China) Holdings Ltd. (唐宮(中國)控股有限公司), a restaurant operations and food productions company listed on the Main Board of the Stock Exchange (stock code: 1181) and Shenzhen Jiameixuan Catering Co., Ltd. (深圳嘉美軒餐飲有限公司), a subsidiary of Kaisa Group Holdings Ltd. (stock code: 1638) which operates chained catering businesses, respectively, where he was responsible for overseeing the financial management and accounting functions of the company. From December 2014 to May 2019, he served as deputy director of finance at Shenzhen Zhaobangji Group Co., Ltd. (深圳兆邦基集團有限公司), a company specializes in commercial property development and provision of property management services, where he was primarily responsible for overseeing the financial management and functions of the company.

Mr. Jiang has been a certified public accountant in the PRC since December 2012. He obtained a bachelor’s degree in accountancy from Sun Yat-Sen University (中山大學) in the PRC in June 2004.

Mr. Liu Yan (劉炎), aged 32, was appointed as the secretary to the board and general manager of the funding center in August 2018. He was appointed as a joint company secretary of the Company on March 21, 2022. Mr. Liu is responsible for and overseeing the corporate financing and company secretarial matters of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, from April 2014 to March 2015, he served as customer relationship manager at the Shenzhen branch of China Everbright Bank Co., Ltd, which is listed on the Shanghai Stock Exchange (stock code: 601818.SH) and the Main Board of the Stock Exchange (stock code: 6818), where he was primarily responsible for corporate financing businesses. From April 2015 to August 2018, he served as the deputy director of the finance centre of Shenzhen Zhengwei (Group) Co., Ltd. (深圳正威(集團)有限公司), one of the Fortune Global 500 companies, where he was primarily responsible for debt financing businesses.

Mr. Liu obtained the certificate of Secretary of the Board (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in April 2021. He also obtained qualification from China Futures Association to act as futures practitioner in November 2015, qualification from Securities Association of China to act as funds practitioner in May 2016 and qualification from Asset Management Association of China to act as securities practitioner in June 2016, respectively. Mr. Liu obtained a bachelor’s degree in international economics and trading from Anhui University of Technology (安徽工業大學) in the PRC in June 2012. He subsequently obtained a Master’s degree in international trading and finance from University of Glasgow in the United Kingdom in December 2013.

JOINT COMPANY SECRETARIES

Mr. Liu Yan (劉炎), aged 32, was appointed as a joint company secretary of the Company on March 21, 2022. For the biographical details of Mr. Liu, see “Senior Management – Mr. Liu Yan (劉炎)” in this section.

Ms. Cheung Ka Lun Karen (張嘉倫), aged 33, was appointed as a joint company secretary of the Company on July 26, 2022. Ms. Cheung is a Manager of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

Ms. Cheung has over seven years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Cheung is currently the joint company secretary of Global New Material International Holdings Limited (stock code: 6616) and JOINN Laboratories (China) Co., Ltd. (stock code: 6127), both of which are listed on the Main Board of the Stock Exchange.

Ms. Cheung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. Ms. Cheung obtained her degree of Bachelor of Business Administration (Honours) from City University of Hong Kong in July 2011.

BOARD COMMITTEES

Our Board has established the audit committee, the remuneration committee and the nomination committee and delegated various responsibilities to these committees, which assist our Board in discharging its duties and overseeing particular aspects of our Group’s activities.

DIRECTORS AND SENIOR MANAGEMENT

Audit committee

Our Group [has established] the audit committee on October 17, 2022 pursuant to Rule 3.21 of the Listing Rules with written terms of reference in compliance with paragraph D.3 of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, namely, Ms. Xu Nailong, Mr. Kam Chi Sing and Ms. Zhao Jinlin. Ms. Xu Nailong has been appointed as the chairman of the audit committee, and Ms. Xu has the appropriate professional qualifications or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The primary duties of the audit committee include, but are not limited to: (i) assisting our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Remuneration committee

Our Group has established the remuneration committee on October 17, 2022 pursuant to Rule 3.25 of the Listing Rules with written terms of reference in compliance with paragraph E.1 of Part 2 of the CG Code as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely Ms. Zhao Jinlin, Mr. Hu Zuoxiong and Ms. Xu Nailong. Ms. Zhao has been appointed as the chairman of the remuneration committee.

The primary duties of the remuneration committee include, but are not limited to: (i) making recommendations to our Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Board from time to time.

Nomination committee

Our Group has established the nomination committee on October 17, 2022 pursuant to Rule 3.27A of the Listing Rules with written terms of reference in compliance with paragraph B.3 of Part 2 of the CG Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. Hu Zuoxiong, Ms. Xu Nailong and Ms. Zhao Jinlin. Mr. Hu has been appointed as the chairman of the nomination committee.

The primary duties of the nomination committee include, but are not limited to: (i) reviewing the structure, size and composition of our Board; (ii) assessing the independence of independent non-executive Directors; and (iii) making recommendations to our Board on matters relating to the appointment of Directors.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

Our Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the CG Code. Our Company is committed to the view that our Board should include a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgment.

CODE PROVISION C.2.1 OF THE CORPORATE GOVERNANCE CODE

Pursuant to code provision C.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Hu is performing these two roles. Mr. Hu is responsible for the overall management, operation and strategic development of our Group and has been instrumental to our growth and business operation since establishment of our Group in November 2004. Taking into account the continuation of management and the implementation of our business strategies, our Directors (including our independent non-executive Directors) consider it is most suitable for Mr. Hu to hold both the positions of chief executive officer and the chairman of the Board and the existing arrangements are beneficial to the management of our Group and are in the interests of our Company and our Shareholders as a whole. The balance of power and authority is ensured by the operation of the senior management and our Board, both of which comprises experienced and high-calibre individuals. Our Board comprises three executive Directors (including Mr. Hu), one non-executive Director and three independent non-executive Directors, and therefore has a strong independence element in its composition.

Save as disclosed above, we are in compliance with all code provisions of the CG Code. Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Directors will review our corporate governance policies and compliance with the CG Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports after the [REDACTED].

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY POLICY

Our Board [has adopted] a board diversity policy which sets out the objective and approach to achieve diversity of our Board. Our Group recognizes the benefits of having a diversified Board and sees increasing diversity at the Board level as an essential element in supporting the attainment of our Group’s strategic objectives and sustainable development. Our Group seeks to achieve diversity of our Board through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender and age. Our Directors have a balanced mix of experiences, including operation and management of technology companies, investment, corporate retail, risk management, finance and funding, auditing and tax. Furthermore, the ages of our Directors range from 35 year’s old to 56 year’s old. In terms of gender diversity, two of our seven Directors are female.

After [REDACTED], the nomination committee will review the board diversity policy and its implementation from time to time to ensure its implementation and monitor its continued effectiveness, and the same will be disclosed in our corporate governance report in accordance with the Listing Rules, including any measurable objectives set for implementing the board diversity policy and the progress on achieving these objectives on an annual basis.

Nevertheless, with a view to developing a pipeline of potential successors to our Board that may meet the target gender diversity, our Group will (i) continue to apply the principle of appointments based on merits with reference to board diversity as a whole; (ii) take steps to promote gender diversity at all levels of our Group by recruiting staff at a mid to senior level with regard to the benefits of gender diversity; and (iii) engage more resources in training female staff who we consider having the suitable experience, skills and knowledge for our business to equip themselves with the attributes and competencies required to serve as members of our Board in light of our strategic needs and the industry in which we operate with the aim of promoting them to our Board in a few years’ time.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of salaries, bonuses and contributions to retirement benefit and scheme. The aggregate remuneration (including fees, salaries, contributions to pension schemes, bonus, retirement benefits scheme, allowance and other benefits in kind) paid to our Directors for each of the year ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 was approximately RMB1.3 million, RMB2.1 million, RMB2.3 million and RMB6.0 million, respectively. Save as disclosed above, no other amounts have been paid or are payable by any member of our Group to our Directors during the Track Record Period.

The aggregate amount of salaries, bonuses and contributions to retirement benefit and scheme paid to our five highest paid individuals for each of the year ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 was approximately RMB3.2 million, RMB3.5 million, RMB4.2 million and RMB15.1 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of each of the year ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022. Further, none of our Directors had waived or agreed to waive any remuneration during the same periods.

Under the arrangement currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, bonus, share-based payments, retirement benefits scheme, allowances and other benefits in kind) of our Directors for the year ending December 31, 2022 is estimated to be no more than RMB16.1 million. Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and, following the [REDACTED], will receive recommendation from the remuneration committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

COMPLIANCE ADVISOR

Our Company has appointed Haitong International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise our Company in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including shares issues and share repurchases;
- where our Company proposes to use the proceeds of the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment of our compliance advisor shall commence on the [REDACTED] and end on the date on which our Company distribute our annual report in respect of our financial results for the first full financial year commencing after the [REDACTED].

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised):

	Nominal value <i>(HK\$)</i>
Authorized share capital:	
1,000,000,000 Shares of HK\$0.01 each	10,000,000
Issued and to be issued, fully paid or credited as fully paid⁽¹⁾:	
61,910,299 Shares of par value HK\$0.01 each	619,102.99
15,091,329 Series A Preferred Shares of par value HK\$0.01 each	150,913.29
14,593,840 Series B Preferred Shares of par value HK\$0.01 each	145,938.40
2,084,011 Series C Preferred Shares of par value HK\$0.01 each	20,840.11
12,824,688 Series D-1 Preferred Shares of par value HK\$0.01 each	128,246.88
3,606,944 Series D-2 Preferred Shares of par value HK\$0.01 each	36,069.44
1,000,000 Series D-3 Preferred Shares of par value HK\$0.01 each	10,000.00
[REDACTED] Shares to be issued pursuant to the Capitalization Issue	[REDACTED]
[REDACTED] Shares to be issued under the [REDACTED]	[REDACTED]
<u>[REDACTED]</u> Total	<u>[REDACTED]</u>

Note:

- (1) The Preferred Shares will be converted into ordinary Shares on a one-to-one basis by way of redesignation on the [REDACTED].

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and the issue of Shares pursuant to the Capitalization Issue and the [REDACTED] are made. It takes no account of any Shares which may be issued pursuant to the exercise of the [REDACTED] or any Shares that may be issued or bought back by us pursuant to the general mandates granted to our Directors to issue or buyback Shares as described below.

SHARE CAPITAL

RANKINGS

The [REDACTED] will be ordinary shares in the share capital of our Company and will carry the same rights in all respects with all Shares in issue or to be issued as mentioned in this document and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document save for the entitlement under the Capitalization Issue.

EMPLOYEE INCENTIVE PLANS

Our Company adopted the LX Brothers Employee Incentive Plan and Beauty Bear Employee Incentive Plan on March 23, 2022 and April 1, 2022, respectively. The principal terms of the LX Brothers Employee Incentive Plan and the Beauty Bear Employee Incentive Plan are summarized in “Statutory and General Information – D. Employee Incentive Plans” in Appendix IV to this document.

GENERAL MANDATE TO ALLOT AND ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with a total number of issued shares of not more than the sum of:

- (1) 20% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]); and
- (2) the total number of Shares bought back by our Company (if any) pursuant to the general mandate to buyback Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorized to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement.

This general mandate will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- (iii) the date on which such general mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further information on this general mandate is set out in “Statutory and General Information – A. Further information about our Group – 5. Written resolutions of our Shareholders passed on September 27, 2022” in Appendix IV to this document.

SHARE CAPITAL

GENERAL MANDATE TO BUYBACK SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to buy back Shares with a total number of Shares of not more than 10% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] (excluding Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]).

This mandate only relates to buybacks made on the Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in “Statutory and General Information – A. Further information about our Group – 7. Buyback by our Company of our own securities” in Appendix IV to this document.

This general mandate will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- (iii) the date on which such general mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further information on this general mandate is set out in “Statutory and General Information – A. Further information about our Group – 5. Written resolutions of our Shareholders passed on September 27, 2022” in Appendix IV to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company will have only one class of Shares, namely ordinary shares, each of which carries the same rights as the other Shares upon completion of the Capitalization Issue and the [REDACTED].

As a matter of the Cayman Islands Companies Act, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meeting or class meeting is prescribed under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed under the Articles, a summary of which is set out in “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this document.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately prior to and following the completion of the Capitalization Issue and the [REDACTED], have interests or short positions in our Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of our Company:

Name of Shareholder	Nature of interest	Shares held as of the date of this document immediately prior to the completion of the Capitalization Issue and the [REDACTED] ⁽¹⁾		Shares held immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised)		Shares held immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is fully exercised)	
		Number	Percentage	Number	Percentage	Number	Percentage
Mr. Hu ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽¹⁰⁾	Interest in controlled corporations; beneficial owner	52,611,620 (L)	47.35%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Bear Family ⁽²⁾	Beneficial Owner	27,817,614 (L)	25.04%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Beauty Bear ⁽³⁾	Beneficial Owner	11,111,111 (L)	10.00%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
LX Brothers ⁽⁵⁾	Beneficial Owner	17,880,602 (L)	[5.96]%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Shenzhen Dachen Caizhi Venture Capital Investment Management Co., Ltd. (深圳市達晨財智創業投資管理有限公司) (“Dachen Management”) ⁽⁶⁾	Interest in controlled corporations	17,161,436 (L)	15.45%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Hunan TV and Broadcast Intermediary Co., Ltd. (湖南電廣傳媒股份有限公司) (“Hunan TVBI”) ⁽⁷⁾	Interest in controlled corporations	17,161,436 (L)	15.45%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Tigris Innovation Limited (“JD BVI”)	Beneficial Owner	14,683,692 (L)	13.22%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
JD.com Investment Limited (“JD Investment”) ⁽⁸⁾	Interest in controlled corporations	14,683,692 (L)	13.22%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
JD.com ⁽⁸⁾	Interest in controlled corporations	14,683,692 (L)	13.22%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合伙)) (“Shanghai Yujun”)	Beneficial Owner	13,670,515 (L)	12.31%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Shares held as of the date of this document immediately prior to the completion of the Capitalization Issue and the [REDACTED] ⁽¹⁾		Shares held immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised)		Shares held immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is fully exercised)	
		Number	Percentage	Number	Percentage	Number	Percentage
SME Development Fund (Shenzhen Nanshan LLP) (中小企業發展基金(深圳南山有限合夥) (“SME Fund”) ⁽⁹⁾	Interest in controlled corporations	13,670,515 (L)	12.30%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Shenzhen Oriental Fortune SME Development Fund Equity Investment Management Co., Ltd. (深圳市富海中小企業發展基金股權投資管理有限公司) (“Shenzhen OFC”) ⁽⁹⁾	Interest in controlled corporations	13,670,515 (L)	12.30%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Shenzhen Oriental Fortune Investment Management Co., Ltd. (深圳市東方富海投資管理股份有限公司) (“Shenzhen OFC Investment”) ⁽⁹⁾	Interest in controlled corporations	13,670,515 (L)	12.30%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Mr. Chen Wei (陳瑋) ⁽⁹⁾	Interest in controlled corporations	13,670,515 (L)	12.30%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Shanghai Tong Yun Xin Xi Ji Shu Company Limited (“Dachen Chuangtong BVI”) ⁽⁶⁾	Beneficial Owner	12,200,459 (L)	10.98%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%
Shanghai Tongyun Information Technology Partnership (LLP) (上海通韞信息技術合夥企業(有限合夥)) (“Shanghai Tongyun”) ⁽⁶⁾	Interest in controlled corporations	12,200,459 (L)	10.98%	[REDACTED] (L)	[REDACTED]%	[REDACTED] (L)	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) The letter “L” denotes a long position in our Shares.
- (2) Bear Family is wholly owned by Mr. Hu. By virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by Bear Family.
- (3) The entire issued share capital of Beauty Bear is held by Teeroy Limited, who was entrusted by our Company to hold such Shares for the Beauty Bear Employee Incentive Plan. The voting rights of Beauty Bear are exercised by Mr. Hu. By virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by Beauty Bear.
- (4) Our Company is owned as to approximately [REDACTED]% by Little Bear. Mr. Hu controls the entire voting rights of Little Bear. As such, by virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by Little Bear.
- (5) Our Company is owned as to approximately [REDACTED]% by LX Brothers. The entire issued share capital of LX Brothers is held by Tricor Trust (Hong Kong) Limited (“**Tricor Trust**”), who was entrusted by our Company to hold such Shares for the purpose of the LX Brothers Employee Incentive Plan. The voting rights of LX Brothers are exercised by Mr. Hu. By virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by LX Brothers.
- (6) Our Company is owned as to approximately [REDACTED]% by Dacheng Chuangtong BVI, [REDACTED]% by Shanghai Jing Zhe Xin Xi Ji Shu Company Limited (“**Dachen Chuangjing BVI**”) and [REDACTED]% by Shanghai Yuanzhe Enterprise Management Partnership (LLP) (上海元輒企業管理合夥企業 (有限合夥)) (“**Dachen Chuangyuan ODI**”). Dacheng Chuangtong BVI is wholly-owned by Shanghai Tongyun. Dachen Chuangjing BVI is wholly-owned by Shanghai Jingzhe Information Technology Partnership (LLP) (上海景輒信息技術合夥企業(有限合夥)). Dachen Management is the sole general partner of Dacheng Chuangtong BVI, Dachen Chuangjing BVI and Dachen Chuangyuan ODI. By virtue of the SFO, Dachen Management is deemed to be interested in the Shares held by Dacheng Chuangtong BVI, Dachen Chuangjing BVI and Dachen Chuangyuan ODI.
- (7) Dachen Management is ultimately owned as to 55% by Hunan TVBI. By virtue of the SFO, Hunan TVBI is deemed to be interested in the Shares held by Dachen Management.
- (8) JD BVI is wholly owned by JD Investment, which is a wholly-owned subsidiary of JD.com. By virtue of the SFO, JD Investment and JD.com are deemed to be interested in the Shares held by JD BVI.
- (9) As of the Latest Practicable Date, (i) Shanghai Yujun was managed by Shenzhen OFC as its sole general partner and other than SME Fund, no other limited partners held more than one-third of the interest in Shanghai Yujun; (ii) SME Fund was also managed by Shenzhen OFC, which in turn was owned as to 51% by Shenzhen OFC Investment and (iii) Shenzhen OFC Investment was ultimately beneficially owned by Mr. Chen Wei. By virtue of the SFO, SME Fund, Shenzhen OFC, Shenzhen OFC Investment and Mr. Chen Wei are deemed to be interested in the Shares held by Shanghai Yujun.
- (10) Mr. Hu has been granted options with respect to [REDACTED] outstanding Shares under the LX Brothers Employee Incentive Plan. These Shares are currently held by Tricor Trust (see note (5) above). For details, please refer to the section headed “Appendix IV – Statutory and General Information – D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan” in this document.

Except as disclosed in this section, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of any member of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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	% 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	<u>(60,346)</u>	<u>(12.1)</u>	<u>(177,127)</u>	<u>(17.3)</u>	<u>(448,702)</u>	<u>(33.7)</u>	<u>(268,137)</u>	<u>(49.9)</u>	<u>(5,830)</u>	<u>(0.7)</u>
(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⁾	-	-	-	-	-	-
	<u>(60,346)</u>	<u>(12.1)</u>	<u>(177,127)</u>	<u>(17.3)</u>	<u>(448,702)</u>	<u>(33.7)</u>	<u>(268,137)</u>	<u>(49.9)</u>	<u>(5,830)</u>	<u>(0.7)</u>

Note:

(1) Less than 0.05%.

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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	
	2019	2020	2021	June 30, 2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
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	<u>36,850</u>	<u>164,484</u>	<u>224,018</u>	<u>110,475</u>	<u>127,507</u>

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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	%	RMB'000	%
	<i>(unaudited)</i>									
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.

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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	%	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.

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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	%	RMB'000	%
	<i>(unaudited)</i>									
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.

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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	2022
Total sales volume (device)	151,155	598,685	857,118	202,701	472,682	1,261.2
Average sales value (RMB/device)	1,211.6	914.5	876.9	1,232.1	472,682	1,261.2
Average sales value (RMB/device)						
Total sales volume (device)						
Average sales value (RMB/device)						
Average sales value (RMB/device)						

Device recycling business

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	2022
Average monthly subscription volume (device)	157,038	230,583	352,942	318,445	373,911	67.0
Average monthly subscription price (RMB/device)	43.6	52.0	62.7	60.2	53.2	46.3
Average monthly subscription volume (device)	102,329	151,204	228,662	200,671	257,409	46.3
Average monthly subscription price (RMB/device)						
Average monthly subscription price (RMB/device)						
Average monthly subscription price (RMB/device)						

Device subscription services

IT technical subscription services

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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	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	%
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	<u>27,235</u>	<u>12,729</u>	<u>39,964</u>	<u>7.8</u>
	<u>352,172</u>	<u>162,376</u>	<u>514,548</u>	<u>100.0</u>

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	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
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	<u>25,025</u>	<u>6.0</u>	<u>23,375</u>	<u>2.7</u>	<u>34,711</u>	<u>3.1</u>	<u>15,641</u>	<u>3.6</u>	<u>16,381</u>	<u>2.2</u>
Total	<u>420,237</u>	<u>100.0</u>	<u>875,307</u>	<u>100.0</u>	<u>1,137,266</u>	<u>100.0</u>	<u>439,686</u>	<u>100.0</u>	<u>754,392</u>	<u>100.0</u>

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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	%
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	%
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.

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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	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	
	profit	profit	profit	profit	profit	profit	profit	profit	profit	
	Profit	Profit	Profit	Profit	Profit	Profit	Profit	Profit	Profit	
	margin	margin	margin	margin	margin	margin	margin	margin	margin	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
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	<u>273</u>	<u>0.1</u>	<u>49,558</u>	<u>6.5</u>	<u>29,107</u>	<u>3.1</u>	<u>23,933</u>	<u>6.7</u>	<u>12,932</u>	<u>2.0</u>

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

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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

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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.

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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	%
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.

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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	%
	<i>(unaudited)</i>									
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

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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	%
	<i>(unaudited)</i>									
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.

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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	%	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	%	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

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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	
	2019	2020	2021	June 30, 2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Current tax:					
PRC Enterprise					
Income Tax					
(“EIT”)					
– Current year	170	293	174	106	7
Deferred tax	<u>(7,026)</u>	<u>1,871</u>	<u>2,257</u>	<u>181</u>	<u>(1,282)</u>
Total	<u><u>(6,856)</u></u>	<u><u>2,164</u></u>	<u><u>2,431</u></u>	<u><u>287</u></u>	<u><u>(1,275)</u></u>

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.

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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.

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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.

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- *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.

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- *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.

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- *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.

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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.

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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.

FINANCIAL INFORMATION

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.

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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.

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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.

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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.

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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.

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- *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.

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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.

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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.

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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.

FINANCIAL INFORMATION

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
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
				<i>RMB'000</i>
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
	<u>393,779</u>	<u>573,260</u>	<u>787,765</u>	<u>837,735</u>
Total non-current assets				
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
	<u>235,964</u>	<u>367,819</u>	<u>390,052</u>	<u>478,340</u>
Total current assets				
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
	<u>289,313</u>	<u>396,809</u>	<u>529,089</u>	<u>677,389</u>
Total current liabilities				
Net current liabilities	<u>(53,349)</u>	<u>(28,990)</u>	<u>(139,037)</u>	<u>(199,049)</u>

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	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022 <i>RMB'000</i>
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	<u>330,740</u>	<u>714,158</u>	<u>1,278,952</u>	<u>1,251,185</u>
Net assets (liabilities)	<u>9,690</u>	<u>(169,888)</u>	<u>(630,224)</u>	<u>(612,499)</u>
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)	<u>9,690</u>	<u>(169,888)</u>	<u>(630,224)</u>	<u>(612,499)</u>

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.

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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.”

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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
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2022</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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.

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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
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2022</i> <i>RMB'000</i>
<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	<u>45,947</u>	<u>122,041</u>	<u>74,307</u>	<u>63,102</u>

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.

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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 <i>(RMB'000)</i>	Subsequent utilization as of September 30, 2022 <i>(RMB'000)</i>	Percentage of subsequent utilization as of September 30, 2022 %
<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

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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
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
				<i>RMB'000</i>
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
	2019	2020	2021	ended
				June 30,
				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.

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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
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>47,358</u>	<u>37,107</u>	<u>53,440</u>	<u>58,306</u>

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.

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Other receivables, deposits and prepayments

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
				<i>RMB'000</i>
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:				
– <i>Non-current</i>	17,695	16,452	6,370	4,782
– <i>Current</i>	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.

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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.

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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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Third parties	41,098	60,784	54,637	108,974
Related parties	64,570	74,585	13,656	11,708
	<u>105,668</u>	<u>135,369</u>	<u>68,293</u>	<u>120,682</u>

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>105,668</u>	<u>135,369</u>	<u>68,293</u>	<u>120,682</u>

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

	Year ended December 31,			Six months ended
	2019	2020	2021	June 30, 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.

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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
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				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
	<u>1,100</u>	<u>287</u>	<u>643</u>	<u>600</u>
Represented by:				
– <i>third parties</i>	39,070	34,252	54,769	49,640
– <i>related parties</i>	1,505	2,888	3,627	4,913
	<u>1,505</u>	<u>2,888</u>	<u>3,627</u>	<u>4,913</u>
Total	<u>40,575</u>	<u>37,140</u>	<u>58,396</u>	<u>54,553</u>

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.

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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.

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Cash Flows

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

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30, 2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
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	<u>75,911</u>	<u>80,378</u>	<u>118,553</u>	<u>83,117</u>	<u>206,009</u>

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.

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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.

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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.

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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	
	2019	2020	2021	June 30, 2022	September 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
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	<u>256,841</u>	<u>606,533</u>	<u>1,117,083</u>	<u>1,080,666</u>	<u>1,082,569</u>
Total indebtedness	<u><u>463,897</u></u>	<u><u>934,191</u></u>	<u><u>1,679,830</u></u>	<u><u>1,752,035</u></u>	<u><u>1,670,706</u></u>

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

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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.

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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	
	2019	2020	2021	June 30, 2022	September 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
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.

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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.

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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.

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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			As of/ for the six months ended
	2019	December 31, 2020	2021	June 30, 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

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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.

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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.

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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	
	2019	2020	2021	June 30, 2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
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

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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.

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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.

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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.

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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.

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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

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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.

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[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.

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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 <i>RMB'000</i> <i>Note 1</i>	Estimated net proceeds from the [REDACTED] <i>RMB'000</i> <i>Note 2</i>	Unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022 <i>RMB'000</i> <i>Note 3</i>	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 <i>RMB</i> <i>HKD</i> <i>Note 3</i> <i>Note 4</i>	
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.

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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.

FUTURE PLANS AND USE OF PROCEEDS

See “Business – Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the [REDACTED] which we will receive after deduction of [REDACTED] fees and commissions and estimated expenses payable by us in connection with the [REDACTED] (assuming the [REDACTED] is not exercised):

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document)	HK\$[REDACTED] million
Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] range stated in this document)	HK\$[REDACTED] million
Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] range stated in this document)	HK\$[REDACTED] million

We intend to use the net proceeds as follows (based on the mid-point of the [REDACTED] range stated in this document):

- Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to improve customer experience to satisfy the evolving customer demands, with detailed breakdown of the use of proceeds to be allocated as below:
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand the scale of IT devices under our management and develop DLM solutions and services for different scenarios, such as digital printing solutions and integrated cloud-based conferencing solutions, etc.

To expand the scale of IT devices available for subscription, we plan to purchase approximately 176,500 computers from 2023 to 2025, of which [REDACTED]% of the total purchase price, or HK\$[REDACTED] million, will be paid using net proceeds from the [REDACTED].

The digital printing solutions provide companies with effective data management and enhanced data security. The integrated cloud-based conferencing solutions enable conference participants in multi-point conferences with desktop, laptop and smartphone. We provide both IT devices and software to our customers for the two types of services mentioned above. Therefore, we plan to purchase approximately 3,800 digital printers and large conference screens from 2023 to 2025 in order to support our provision of digital printing solutions and integrated cloud-based conference solutions. Approximately [REDACTED]% of the total purchase price, or HK\$[REDACTED] million, will be paid using net proceeds from the [REDACTED].

FUTURE PLANS AND USE OF PROCEEDS

- (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to continue to refurbish and upgrade de-commissioned IT devices to extend their service life and upgrade their performance and improve customer experience, among which approximately HK\$[REDACTED] million and HK\$[REDACTED] million will be used to purchase accessories for refurbishment and improve our remanufacturing facilities, respectively.
- (iii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to improve our technical service capabilities, recruit technical professionals with extensive technical service experience and provide professional training to the team, increase the coverage of service personnel in core cities and CBDs, and address customers' demand in a more responsive manner in these regions.

Approximately HK\$[REDACTED] million will be used to recruit approximately 50 IT technical engineers at junior to middle level with around three years of IT technical experience in the next three years to provide door-to-door installation, repair and maintenance services. We expect the net proceeds will be used for salary payment of these additional technical engineers until 2025. The remaining balance of the net proceeds of approximately HK\$[REDACTED] million will be used to fund the cost of training programs for our IT technical engineers.

- Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand customer base and our market share in targeted markets, with detailed breakdown of the use of proceeds to be allocated as below:
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand our elite sales team and improve the training system for sales team to strengthen our sales network, expand our services in core cities and CBDs, and expand our customer base of growing enterprises.

In particular, we plan to recruit approximately 30 offline sales staff and approximately five online operations staff in our sales team in the next three years. The additional offline sales staff will enhance our capability in acquiring more large corporate customers, as their development and maintenance require more in-person interaction. We will hire offline sales staff familiar with local market and enterprises in our targeted markets, and provide training to them to increase their ability to attract and retain KA customers. The additional online operations staff will support the operation of our own bearrental.com website and the customer service portals to be co-developed with our third-party business partners (the details of which will be discussed below, aiming at acquiring small and medium-size enterprise customers). We expect the net proceeds will be used for salary payment of these additional sales staff until 2028. To further expand our customer base and market share in targeted markets, we plan to upgrade our system infrastructure and further penetrate

FUTURE PLANS AND USE OF PROCEEDS

into core cities, and deepen cooperation with strategic Shareholders and business partners as well as other e-commerce platforms. For details, please refer to “Financial Information – Our Strategy to Improve Profitability – Expand our customer base and market share in core regions” in this document.

- (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to enhance our brand awareness and industry influence through online and offline marketing and brand promotion, and increase awareness and engagement of customers.

Approximately HK\$[REDACTED] million is expected to be used to increase our online customer acquisition by engaging in search engines and social media advertising, which enable us to reach potential customers online more easily. Furthermore, by placing advertisements on e-commerce platforms, we can also strengthen our relationship with e-commerce platforms operators and gain exposure to a large network of qualified investors.

In addition, approximately HK\$[REDACTED] million is expected to be used to cover our increased advertising expenditure to strengthen our brand awareness, including sponsoring events, elevator advertisements and outdoor advertisements.

- Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used for system upgrade and product development, with detailed breakdown of the use of proceeds to be allocated as below. Enhancing technology capabilities and upgrading system infrastructure require substantial capital investment. As of June 30, 2022, we had 79 research and development staff. We plan to recruit more than 10 research and development staff including product managers, system developers, data analysts and project managers in the next three years. As the DLM market in China is expected to experience growth at a faster rate in the years ahead, we believe such investment is indispensable to rapidly increase our presence.
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to further enhance technology capabilities and upgrade system infrastructure to improve our operational efficiency, asset management efficiency and asset utilization rate.

We plan to use approximately HK\$[REDACTED] million in recruiting approximately 12 research and development staff in the next three years. These additional research and development staff include product managers, system developers, operation and maintenance personnel, data analysts, technology architects and project managers. We expect the net proceeds will be used for salary payment of these additional research and development staff until 2028. In addition, we plan to invest HK\$[REDACTED] million from 2023 to 2028 in system server resources and software license fee.

FUTURE PLANS AND USE OF PROCEEDS

- (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to upgrade and enhance the functionalities of our SaaS products by introducing features such as IoT technology and intelligent inventory counts to cover more business and application scenarios for enterprises to manage the full lifecycle of fixed assets.

Currently we have not applied IoT technology in our operation but have applied intelligent inventory counts through our self-developed software such as Bear Cloud Inventory Management System v1.0 (for details of our software copyrights, see “Appendix IV – Statutory and General Information” of this document) to track and manage the full life cycle of our devices. After running the software on a device, it will automatically read the key information of the device and print a barcode. The key information of the device can be retrieved by scanning the barcode afterwards. After we incorporate the IoT technology, we will be able to realize automatic detection of devices when they are moved in and out of the warehouse and improve the efficiency of inventory counts. To achieve the goal, we plan to use approximately HK\$[REDACTED] million in recruiting three IoT engineers and IoT product managers in the next three years. We expect the net proceeds will be used for salary payment of these IoT engineers and IoT product managers until 2028. In addition, approximately HK\$[REDACTED] million will be used from 2023 to 2028 to purchase smart hardware devices, related consumables and server resources.

- (iii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to co-develop customer service portals with third-party business partners with the core capabilities of the DLM system through standard technical interfaces, so that third-party business partners can provide DLM solutions on their own platforms.

We plan to spend (a) approximately HK\$[REDACTED] million on the recruitment of approximately three research and development staff, including product managers, system developers and operation and maintenance personnel in the next three years to co-develop customer service portals with third-party business partners and purchase system server resources. We expect the net proceeds will be used for salary payment of these additional research and development staff until 2028 and (b) approximately HK\$[REDACTED] million to purchase designated devices for the development of customers service portals with third-party business partners from 2023 to 2028.

By co-developing customer service portals, our third-party business partners possessing resources of enterprise customers but not providing DLM themselves can provide their customers with other valued-added products or services such as device subscription services on their proprietary platforms, through which their customers can complete all aspects of the transaction (including registration, credit risk control, order placement, delivery, payment of service fees) using their registered accounts with our third-party business

FUTURE PLANS AND USE OF PROCEEDS

partners. Currently, we have co-developed customer service portals zl.jd.com and zulin.jd.com in cooperation with JD.com on the homepage of JD.com’s e-commerce platform. Enterprise customers of JD.com can access and subscribe for our DLM solutions and complete the transaction via these portals directly. For completed orders, we normally pay a fee of approximately 5% of the transaction amount to JD.com, which are charged to our customer acquisition expenses. We are at early stage of discussion with certain other third-party business partners to co-develop customer service portals, and we have not entered into any agreement with them.

Through the co-development of such portals, we can reduce customer acquisition costs and improve customer acquisition efficiency. We expect to improve customer acquisition efficiency through the standardization of services and self-service order completion on the customer service portals, which enable us to attract and handle a large amount of SME customers at the same time. Furthermore, the development of the customer service portals will optimize customer experience by providing a seamless connection between third-party online platforms and our DLM solutions, and we can enhance trust and make new customers more willing to subscribe for our services with our third-party business partners’ recognized brands, which would effectively reduce our sales and marketing expenses on promoting our service currently displayed on third-party platforms through in-house marketing effort and in turn reduce our customer acquisition cost per new customer. In the future, we will use net proceeds to further develop the customer service portals and maintain technical interfaces.

- Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to strengthen our risk management capabilities, with detailed breakdown of the use of proceeds to be allocated as below:
 - (i) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to expand the application of artificial intelligence technology, upgrade the intelligent risk control model and enhance real-time corporate credit assessment capabilities. We also plan to upgrade and optimize our intelligent credit granting, anti-fraud and early risk warning systems to improve the efficiency and accuracy of risk assessment.

We plan to spend approximately HK\$[REDACTED] million on the recruitment of around three risk control modelers with more than three years of relevant experience specializing in building and maintenance of risk control model to establish and maintain our risk control model in the next three years. We expect the net proceeds will be used for salary payment of these additional risk control modelers until 2028.

FUTURE PLANS AND USE OF PROCEEDS

- (ii) Approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used to establish internal and offline risk control teams, and improve online and offline integrated risk control capabilities.

We plan to spend (i) approximately HK\$[REDACTED] million on the recruitment of approximately four risk control personnel with more than three years of relevant experience to work with our sales team in customer acquisition in the next three years. We expect the net proceeds will be used for salary payment until 2028 and (ii) approximately HK\$[REDACTED] million for third-party data system from 2023 to 2028.

- The remaining approximately [REDACTED]%, or HK\$[REDACTED] million, is expected to be used for working capital and general corporate purposes.

The table below sets forth the expected implementation timetable of our planned use of our proceeds:

	Year Ended December 31,				
	2026-				
	2023	2024	2025	2028	Total
	<i>(HK\$ in millions)</i>				
Improving customer experience⁽¹⁾					
Purchasing computers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Purchasing digital printers and conference screens	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Purchasing accessories for refurbishment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improving remanufacturing capabilities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Recruiting technical professionals	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Providing professional training	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Expanding customer base and market share					
Expanding offline sales team	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Expanding team to operate online sales platform	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Online advertising	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Offline advertising	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

FUTURE PLANS AND USE OF PROCEEDS

	Year Ended December 31,				
	2026-				
	2023	2024	2025	2028	Total
	<i>(HK\$ in millions)</i>				
System and product development					
Enhancing technology capabilities and upgrading system infrastructure	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Upgrading functionalities of SaaS products	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Establishing customer service portals	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Risk management					
Improving intelligent credit assessment capabilities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Recruiting online intelligent risk control experts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Working capital and general corporate purposes					
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Note:

- (1) We expect the net proceeds from the [REDACTED] allocated for improving customer experience will be used by the end of 2025.

The above allocation of the net proceeds from the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the indicative [REDACTED] range. If the [REDACTED] is fully exercised, the net proceeds that we will receive will be approximately HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range). In the event that the [REDACTED] is exercised in full, we intend to apply the additional net proceeds to the above purposes in the proportions stated above.

If the net proceeds of the [REDACTED] are not immediately applied to the above purposes, we will only deposit those net proceeds into short-term interest-bearing accounts at (i) licensed commercial banks in Hong Kong or the PRC, and/or (ii) other authorized financial institutions (as defined under the SFO) in Hong Kong.

We will issue an appropriate announcement if there is any change to the above proposed use of proceeds.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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The following is the text of a report set out on pages I-1 to I-[●] received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

Deloitte.

德勤

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF LX TECHNOLOGY GROUP LIMITED AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of LX Technology Group Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-3 to I-[●], which comprises the consolidated statements of financial position of the Group as at 31 December 2019, 2020 and 2021 and 30 June 2022, the statement of financial position of the Company as at 30 June 2022, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2021 and the six months ended 30 June 2022 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to I-[●] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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ACCOUNTANTS’ REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s financial position as at 31 December 2019, 2020 and 2021 and 30 June 2022, of the Company’s financial position as at 30 June 2022 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (“ISA”) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

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ACCOUNTANTS' REPORT

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividend was declared or paid by the Company's subsidiaries in respect of the Track Record Period and states that no dividend was declared or paid by the Company since its incorporation.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[REDACTED]

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”) and were audited by us in accordance with ISA issued by IAASB (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”), which is also the functional currency of the Company, and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six months ended 30 June	
		2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000	2022 RMB’000
Revenue	6	500,339	1,022,169	1,330,402	536,926	854,013
Cost of sales		(420,237)	(875,307)	(1,137,266)	(439,686)	(754,392)
Gross profit		80,102	146,862	193,136	97,240	99,621
Other income	7	4,063	13,571	14,861	5,363	8,533
Fair value change of financial liabilities at fair value through profit or loss (“FVTPL”)	25	(10,077)	(189,692)	(433,916)	(278,230)	36,417
Impairment losses under expected credit loss model, net of reversal	32b	(2,099)	(2,071)	(1,970)	(1,122)	(2,921)
Distribution and selling expenses		(72,987)	(78,237)	(115,906)	(50,462)	(64,877)
Administrative expenses		(40,454)	(32,636)	(40,497)	(18,059)	(35,376)
Research and development expenses		(12,030)	(13,654)	(18,280)	(8,000)	(13,019)
Finance costs	8	(11,998)	(19,106)	(36,301)	(14,580)	(21,995)
Other expenses		(1,722)	–	–	–	–
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Loss before tax		(67,202)	(174,963)	(446,271)	(267,850)	(7,105)
Income tax credit (expense)	9	6,856	(2,164)	(2,431)	(287)	1,275
Loss and total comprehensive expense for the year/period	10	<u>(60,346)</u>	<u>(177,127)</u>	<u>(448,702)</u>	<u>(268,137)</u>	<u>(5,830)</u>
(Loss) profit and total comprehensive (expense) income attributable to:						
Owners of the Company		(60,187)	(177,302)	(448,702)	(268,137)	(5,830)
Non-controlling interests		(159)	175	–	–	–
		<u>(60,346)</u>	<u>(177,127)</u>	<u>(448,702)</u>	<u>(268,137)</u>	<u>(5,830)</u>
Loss per share	14					
– Basic (RMB)		(0.50)	(1.46)	(3.73)	(2.21)	(0.05)
– Diluted (RMB)		(0.50)	(1.46)	(3.73)	(2.21)	(0.17)

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December			At
	NOTES	2019	2020	2021	30 June
		RMB'000	RMB'000	RMB'000	2022
					RMB'000
Non-current assets					
Property, plant and equipment and right-of-use assets	15	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	19	17,695	16,452	6,370	4,782
Restricted deposits	20	7,312	10,175	20,233	14,967
Deferred tax assets	16	9,609	7,738	5,481	6,763
		<u>393,779</u>	<u>573,260</u>	<u>787,765</u>	<u>837,735</u>
Current assets					
Inventories	17	45,947	122,041	74,307	63,102
Trade and lease receivables	18	47,358	37,107	53,440	58,306
Other receivables, deposits and prepayments	19	62,488	119,141	134,329	132,117
Restricted deposits	20	4,260	9,152	9,423	18,806
Bank balances and cash	20	75,911	80,378	118,553	206,009
		<u>235,964</u>	<u>367,819</u>	<u>390,052</u>	<u>478,340</u>
Current liabilities					
Trade payables	21	105,668	135,369	68,293	120,682
Other payables and accruals	22	40,575	37,140	58,396	54,553
Tax liabilities		42	39	24	3
Borrowings and lease liabilities	24	133,157	220,033	400,878	500,850
Contract liabilities	23	9,871	4,228	1,498	1,301
		<u>289,313</u>	<u>396,809</u>	<u>529,089</u>	<u>677,389</u>
Net current liabilities		<u>(53,349)</u>	<u>(28,990)</u>	<u>(139,037)</u>	<u>(199,049)</u>
Total assets less current liabilities		<u>340,430</u>	<u>544,270</u>	<u>648,728</u>	<u>638,686</u>
Non-current liabilities					
Borrowings and lease liabilities	24	73,899	107,625	161,869	170,519
Financial liabilities at FVTPL	25	256,841	606,533	1,117,083	1,080,666
		<u>330,740</u>	<u>714,158</u>	<u>1,278,952</u>	<u>1,251,185</u>
Net assets (liabilities)		<u>9,690</u>	<u>(169,888)</u>	<u>(630,224)</u>	<u>(612,499)</u>
Capital and reserves					
Paid-up capital/share capital	26	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)		<u>9,690</u>	<u>(169,888)</u>	<u>(630,224)</u>	<u>(612,499)</u>

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENT OF FINANCIAL POSITION

	<i>NOTES</i>	At 30 June 2022 RMB’000
Non-current asset		
Investment in a subsidiary	29	<u>1,063,240</u>
Current asset		
Other receivables and prepayments	19	<u>5,375</u>
Current liabilities		
Other payables and accruals	22	4,328
Amounts due to subsidiaries	30	<u>14,535</u>
		<u>18,863</u>
Net current liabilities		<u>(13,488)</u>
Total assets less current liabilities		<u>1,049,752</u>
Non-current liability		
Financial liabilities at FVTPL	25	<u>1,080,666</u>
Net liabilities		<u><u>(30,914)</u></u>
Capital and reserves		
Share capital	26	505
Reserves	36	<u>(31,419)</u>
Total deficit		<u><u>(30,914)</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Paid-up capital/ share capital RMB'000	Statutory Surplus reserve RMB'000 (note i)	Other reserves RMB'000 (note ii)	Share- based payments reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Subtotal RMB'000	Non- controlling interests RMB'000	Total RMB'000
At 1 January 2019	55,000	2,561	10,000	–	2,003	69,564	6,344	75,908
Loss and total comprehensive expense for the year	–	–	–	–	(60,187)	(60,187)	(159)	(60,346)
Acquisition of non-controlling interests in subsidiaries (note 29)	–	–	(362)	–	–	(362)	(5,510)	(5,872)
Transfer to statutory surplus reserve	–	494	–	–	(494)	–	–	–
At 31 December 2019	55,000	3,055	9,638	–	(58,678)	9,015	675	9,690
(Loss) profit and total comprehensive (expense) income for the year	–	–	–	–	(177,302)	(177,302)	175	(177,127)
Acquisition of non-controlling interest in a subsidiary (note 29)	–	–	(1,601)	–	–	(1,601)	(850)	(2,451)
Transfer to statutory surplus reserve	–	291	–	–	(291)	–	–	–
At 31 December 2020	55,000	3,346	8,037	–	(236,271)	(169,888)	–	(169,888)
Loss and total comprehensive expense for the year	–	–	–	–	(448,702)	(448,702)	–	(448,702)
Effect of Series D-3 Capital Transfer (as defined and detailed in note 25(ii))	(844)	–	(10,790)	–	–	(11,634)	–	(11,634)
Transfer to statutory surplus reserve	–	2,402	–	–	(2,402)	–	–	–
At 31 December 2021	54,156	5,748	(2,753)	–	(687,375)	(630,224)	–	(630,224)

APPENDIX I

ACCOUNTANTS’ REPORT

	Attributable to owners of the Company							
	Paid-up capital/ share capital RMB’000	Statutory Surplus reserve RMB’000 (note i)	Other reserves RMB’000 (note ii)	Share- based payments reserve RMB’000	Retained profits/ accumulated losses) RMB’000	Subtotal RMB’000	Non- controlling interests RMB’000	Total RMB’000
Loss and total comprehensive expense for the period	-	-	-	-	(5,830)	(5,830)	-	(5,830)
Effect of reorganization (note 2)	(54,156)	-	54,156	-	-	-	-	-
Allotment on 19 January 2022 (note 26(ii))	366	-	(366)	-	-	-	-	-
Allotment on 25 March 2022 (note 26(iv))	144	-	(144)	-	-	-	-	-
Redesignated as preferred shares on 28 March 2022 (note 26(v))	(5)	-	5	-	-	-	-	-
Recognition of equity-settled share-based payments (note 37)	-	-	-	23,555	-	23,555	-	23,555
At 30 June 2022	<u>505</u>	<u>5,748</u>	<u>50,898</u>	<u>23,555</u>	<u>(693,205)</u>	<u>(612,499)</u>	<u>-</u>	<u>(612,499)</u>
At 1 January 2021	55,000	3,346	8,037	-	(236,271)	(169,888)	-	(169,888)
Loss and total comprehensive expense for the period	-	-	-	-	(268,137)	(268,137)	-	(268,137)
Effect of Series D-3 Capital Transfer (as defined and detailed in note 25(ii))	(844)	-	(10,790)	-	-	(11,634)	-	(11,634)
At 30 June 2021 (unaudited)	<u>54,156</u>	<u>3,346</u>	<u>(2,753)</u>	<u>-</u>	<u>(504,408)</u>	<u>(449,659)</u>	<u>-</u>	<u>(449,659)</u>

Notes:

- i Pursuant to the relevant laws in the People’s Republic of China (the “PRC”), a company established in the PRC is required to transfer 10% of its profit after tax per its financial statements to the statutory surplus reserve. The statutory surplus reserve is discretionary until the reserve balance reaches 50% of the registered capital of the respective company and can be used to make up for previous years’ losses or, expand the existing operations or can be converted into additional capital of the company.
- ii The other reserves mainly represent the capital premium over the amount of registered capital injected by the equity owners of LX Technology (Shenzhen) Co., Ltd. (previously known as Shenzhen LX Rental Service Co., Ltd.) (“LX Technology”) other than those investors of Series of Investments (as defined and detailed in notes 2 and 25), the effect arising from acquisition of non-controlling interests in subsidiaries, Series D-3 Capital Transfer (as defined and detailed in note 25(ii)) and the Group Reorganization (as defined and detailed in note 2) and the ordinary shares allotted and issued to employee incentive platforms of the Group.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
OPERATING ACTIVITIES					
Loss before tax	(67,202)	(174,963)	(446,271)	(267,850)	(7,105)
Adjustments for:					
Depreciation of property, plant and equipment and right-of-use assets	82,239	131,209	193,343	85,910	112,173
Fair value change of financial liabilities at FVTPL	10,077	189,692	433,916	278,230	(36,417)
Finance costs	11,998	19,106	36,301	14,580	21,995
Impairment losses under expected credit loss model, net of reversal	2,099	2,071	1,970	1,122	2,921
Interest income	(262)	(560)	(669)	(395)	(182)
Write-down (reversal of write-down) of inventories	956	1,113	(1,012)	(314)	(219)
Share-based payments expense	–	–	–	–	23,555
Unrealised exchange gain	–	–	–	–	(508)
Operating cash flows before movements in working capital	39,905	167,668	217,578	111,283	116,213
(Increase) decrease in inventories	(5,316)	(30,695)	131,966	44,440	29,141
(Increase) decrease in trade and lease receivables	(28,836)	8,180	(18,303)	(8,309)	(7,787)
(Increase) decrease in other receivables, deposits and prepayments	(47,829)	(55,546)	(2,779)	(52,697)	8,047
Increase (decrease) in trade payables	68,756	29,701	(67,076)	(15,477)	52,389
Increase (decrease) in other payables and accruals	22,639	(3,435)	20,312	10,798	(3,712)
Increase (decrease) in contract liabilities	9,286	(5,643)	(2,729)	30,233	(197)
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

APPENDIX I

ACCOUNTANTS’ REPORT

	Year ended 31 December			Six months ended	
	2019	2020	2021	30 June	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
INVESTING ACTIVITIES					
Interest received	262	560	669	395	182
Purchase of property, plant and equipment	(209,341)	(308,462)	(439,541)	(262,039)	(166,739)
Deposits paid for acquisition of property, plant and equipment	(2,270)	(4,461)	(1,773)	(440)	(1,221)
Placement of restricted deposits	(10,702)	(12,178)	(19,731)	(10,326)	(6,643)
Withdrawal of restricted deposits	–	4,423	9,402	3,273	2,526
Placement of rental deposits	(1,731)	(196)	(366)	(336)	(292)
Withdrawal of rental deposits	2	332	366	334	253
NET CASH USED IN INVESTING ACTIVITIES	(223,780)	(319,982)	(450,974)	(269,139)	(171,934)
FINANCING ACTIVITIES					
Interest paid	(11,872)	(18,927)	(36,606)	(14,885)	(21,029)
Repayments of borrowings	(108,033)	(195,528)	(376,092)	(152,009)	(263,827)
Repayments of lease liabilities	(5,097)	(7,214)	(8,421)	(3,945)	(4,764)
New borrowings raised	193,159	278,635	567,871	262,591	355,588
Acquisition of non-controlling interests in subsidiaries	(5,872)	(2,451)	–	–	–
Proceeds from issue of financial liabilities at FVTPL	168,500	160,000	65,000	60,000	473,134
Payments for capital reduction of LX Technology (note 2)	–	–	–	–	(473,134)
Payments of [REDACTED] for financial liabilities at FVTPL	(1,722)	–	–	–	–
Payments of accrued [REDACTED]	–	–	[REDACTED]	–	[REDACTED]
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 1 JANUARY	11,964	75,911	80,378	80,378	118,553
Effect of foreign exchange rate changes	–	–	–	–	3,695
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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 January 2022. The addresses of the Company’s registered office and principal place of business are disclosed in the section headed “Corporate Information” in the Document.

The Company is an investment holding company and the Company became the holding company of the entities now comprising the Group upon completion of the Group Reorganization as defined and detailed in note 2. The entities set out in note 29 now comprising the Group are engaged in provision of device subscription services, information technology (“IT”) technical subscription services and device recycling business.

2. GROUP REORGANIZATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with IFRSs issued by the IASB and the conventions applicable for group reorganization.

Prior to the group reorganization as more fully explained in the section “History, Reorganization and Corporate Structure” of the Document and detailed below (the “Group Reorganisation”), LX Technology is the holding company of all the operating companies now comprising the Group. In preparation for the [REDACTED] of the Company’s shares on the Stock Exchange, the companies now comprising the Group underwent a Group Reorganization as described below and the major steps of the Group Reorganization include the following:

Incorporation of the Company

On 10 January 2022, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. Upon incorporation, the authorized share capital of the Company was HK\$7,600,000 divided into 760,000,000 shares of a par value of HK\$0.01 each, among which one ordinary share was issued and allotted at par to an initial independent subscriber, which was transferred to Bear Family Technology Limited (“Bear Family”) at par on 10 January 2022. On 19 January 2022, a total of 44,777,900 ordinary shares were issued and allotted of which, 27,817,613, 7,568,442, 5,329,380, 3,461,307 and 601,158 ordinary shares were issued and allotted to Bear Family, Little Bear Technology Limited (“Little Bear”), Charlie Bear Technology Limited (“Charlie Bear”), Gold Bear Technology Limited (“Gold Bear”) and Trinity Limited (“Hesheng BVI”), respectively, which are investment holding companies held by certain equity owners of LX Technology, as part of the Group Reorganization.

The 601,158 ordinary shares held by Hesheng BVI, as designated by one of the Capital Reduction Parties as defined below, were redesignated as the Series D-2 preferred shares on 28 March 2022.

Incorporation of Bear Technology Group Limited 小熊科技集團有限公司 (“LX BVI”)

LX BVI was incorporated in the British Virgin Islands (“BVI”) with limited liability on 10 January 2022. Since the date of its incorporation, LX BVI has been authorized to issue a maximum of 50,000 shares of one class with a par value of US\$1.00 each. On 19 January 2022, one ordinary share of LX BVI was allotted and issued, credited as fully paid at par to the Company as the sole shareholder. LX BVI is an intermediate holding company of the Group in BVI.

Incorporation of LX Technology (Hong Kong) Group Limited 凌雄科技集團(香港)有限公司 (“LX HK”)

LX HK was incorporated in Hong Kong with limited liability on 26 January 2022. On the same day, one ordinary share was issued and allotted at a subscription price of HK\$1.00 to its initial subscriber and the aforesaid share was transferred to LX BVI on 28 January 2022 and (ii) 9,999 shares were issued and allotted to LX BVI at a subscription price of HK\$9,999. LX HK is an intermediate holding company of the Group in Hong Kong.

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Reduction of Registered Capital of LX Technology

Prior to the Group Reorganization, several rounds of investments were made in LX Technology by various pre-[REDACTED] investors and fully settled, including Series A investment, Series B investment, Series C investment, Series D-1 investment, Series D-2 investment and Series D-3 investment (collectively defined as “Series of Investments”), as detailed in note 25.

On 9 February 2022, as part of the Group Reorganization, LX Technology and the then existing equity owners of LX Technology entered into a capital reduction agreement, pursuant to which the respective registered capital contributed by the pre-[REDACTED] investors (collectively referred to as the “Capital Reduction Parties”) in LX Technology (the “Capital Reduction”) was repurchased by LX Technology at the consideration equivalent to respective considerations paid by these pre-[REDACTED] investors when they subscribed for the registered capital of LX Technology at the relevant time.

As a result, the registered capital of LX Technology was reduced from RMB106,607,146 to RMB54,155,565 and it was owned as to approximately 54.8% by Mr. Hu Zuoxiong, 25.4% by Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)) (“Hongyang Investment”) and 19.8% by Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)) (“LX Investment”), who are the registered equity owners of LX Technology other than the pre-[REDACTED] investors of the Series of Investments as set out in note 25.

The consideration for the Capital Reduction amounting to RMB473,134,000 was used by the relevant Capital Reduction Parties to subscribe for the Series A preferred shares, the Series B preferred shares, the Series C preferred shares, the Series D-1 preferred shares, the Series D-2 preferred shares and the Series D-3 preferred shares issued by the Company (collectively referred as “Preferred Shares”) and the consideration has been fully settled during the six months ended 30 June 2022.

Hesheng BVI, an offshore affiliated entity designated by Shanghai Hesheng Corporate Management Service Centre (LLP) (上海合聖企業管理服務中心(有限合夥)), a Series D-2 Investor in LX Technology and one of the Capital Reduction Parties, subscribed for 601,158 ordinary shares of the Company. Such ordinary shares were redesignated as the Series D-2 Preferred Shares on 28 March 2022.

Conversion of LX Technology to a sino-foreign joint venture enterprise

On 16 February 2022, Hongyang Investment and Vulcan Investment Company Limited (“Vulcan”), an independent third party, entered into an equity transfer agreement, pursuant to which Vulcan agreed to acquire 1% of the equity interest in LX Technology from Hongyang Investment at a total consideration of RMB5,450,000 and was fully settled in cash on 25 February 2022 (the “Vulcan Investment”). Vulcan became an equity owner of LX Technology on 16 February 2022.

Subscription of shares of the Company by the Capital Reduction Parties and share transfer of Vulcan

In order to reflect the then shareholding structure of LX Technology immediately prior to the Capital Reduction and taking into account the Vulcan Investment, an aggregate of 48,599,654 Preferred Shares of various classes of the Company were allotted and issued to the Capital Reduction Parties’ respective affiliates with a total consideration of RMB473,134,000 and 507,992 ordinary shares of the Company were transferred from Little Bear to Vulcan and the consideration has been fully settled during the six months ended 30 June 2022.

Acquisition of LX Technology by LX HK

On 28 February 2022, LX HK and the then existing shareholders of LX Technology, namely, Mr. Hu Zuoxiong, Hongyang Investment, LX Investment and Vulcan entered into an equity transfer agreement, pursuant to which LX HK agreed to acquire the entire equity interests in LX Technology at a total consideration of approximately RMB61,196,000, which was made reference to the registered capital of LX Technology after the Capital Reduction. The registration of alternation was completed on 22 March 2022 and LX Technology became wholly owned by LX HK.

After completion of the above steps, the Company became the holding company of the companies now comprising the Group on 22 March 2022.

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As the shares are proportionately issued to the shareholders of the Company upon completion of the Group Reorganization, which involves interspersing the Company, LX BVI and LX HK between LX Technology and its shareholders, the Group comprising of the Company, LX BVI, LX HK, LX Technology and its subsidiaries resulting from the Group Reorganization is regarded as a continuing entity throughout the Track Record Period, regardless of the actual date when they legally form part of the Group. Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2022 have been prepared to include the results, changes in equity and cash flows of the companies now comprising the Group as if the Company had always been the holding company of LX Technology throughout the Track Record Period.

The consolidated statements of financial position of the Group as at 31 December 2019, 2020 and 2021 have been prepared to present the carrying amounts of the assets and liabilities of the companies now comprising the Group as if the Company had always been the holding company of LX Technology at those dates.

As at 30 June 2022, the Group had net current liabilities and net liabilities of RMB199,049,000 and RMB612,499,000, respectively. The net liabilities primarily arises from the Preferred Shares as detailed in note 25 issued by the Company classified as financial liabilities at FVTPL amounting RMB1,080,666,000 as at 30 June 2022.

Notwithstanding the above, the Historical Financial Information has been prepared on a going concern basis as the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

- i. The borrowings facilities for the Group’s working capital requirements for the next twelve months from the date of this report will be available as and when required, having regard to the following:
 - Up to 30 September 2022, the Group has successfully raised new borrowings or renewed the existing borrowings total amounting to approximately RMB131,843,000. The directors of the Company are in the opinion that the bank facilities of the Group will be renewed upon or before the maturity dates after considering the Group’s positive relationships with the external financiers, on-going loan covenants compliance and past experience with them; and
 - As at 30 September 2022, the Group has unutilized borrowings facilities of approximately RMB153,648,000.
- ii. The directors of the Company have assessed the terms of the financial liabilities at FVTPL and concluded that these financial liabilities at FVTPL are not redeemable in the next twelve months from the date of this report.
- iii. The Group has prepared a working capital forecast for the next twelve months from the date of this report which shows that the Group will continue generating net cash inflows from operating activities during forecast period.

Having taken into account the above, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital in the next twelve months from the date of this report. Accordingly, the directors of the Company consider that it is appropriate that the Historical Financial Information is prepared on a going concern basis.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with IFRSs, International Accounting Standards (“IASs”) and the related interpretations issued by the IASB that are effective for the accounting period beginning on 1 January 2022 throughout the Track Record Period, except that the Group has adopted IFRS 16 *Leases* (“IFRS 16”) since 1 January 2019. The accounting policies for leases under IFRS 16 are set out in note 4 below.

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IFRS 16 “Leases”

Transition and summary of effects arising from initial application of IFRS 16

On 1 January 2019, the Group has applied IFRS 16. IFRS 16 superseded IAS 17 *Leases* (“IAS 17”), and the related interpretations. The Group applied IFRS 16 in accordance with the transition provisions of IFRS 16.

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognized in the opening retained profits as at 1 January 2019.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognized additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by relevant group entities is 6.4%.

	As at 1 January 2019 RMB’000
Operating lease commitments as at 1 January 2019	16,914
Recognition exemption for short-term leases	(892)
	16,022
Discounting effect using the incremental borrowing rate as at 1 January 2019	(2,709)
	13,313
Analysed as	
– current	2,062
– non-current	11,251
	13,313

The right-of-use assets as at 1 January 2019 represented leased properties with the carrying amount of RMB13,313,000. The transition to IFRS 16 did not have impact on the Group’s retained profits at 1 January 2019.

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As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application on 1 January 2019.

- Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group’s consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognized as income on straight-line basis over the extended lease term.
- Effective on 1 January 2019, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the Historical Financial Information of the Group for the year ended 31 December 2019.

Sales and leaseback transactions

The Group acts as a seller-lessee

In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group applies the requirements of IFRS 15 to assess whether sales and leaseback transaction constitutes a sale.

During the Track Record Period, the Group entered into sale and leaseback transactions in relation to certain equipment for subscription and the transactions do not satisfy the requirements as sales. Accordingly, the Group accounts for the transfer proceeds as other borrowings within the scope of IFRS 9.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

Except for the amendments to IFRSs described below, the directors of the Company anticipate that the application of other new and amendments to IFRSs will have no material impact on the Group’s financial performance and positions and/or on the disclosures to the Group’s consolidated financial statements in the foreseeable future.

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Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

As at 30 June 2022, the Group’s financial liabilities at FVTPL consist of the Company’s Preferred Shares and the Preferred Shares will be converted into ordinary shares of the Company upon completion of a Qualified [REDACTED] (as defined and detailed in note 25) that do not meet equity instruments classification by applying IAS 32 *Financial Instruments: Presentation*. The Group classified as current or non-current based on the earliest date in which the Group has the obligation to redeem these instruments through cash settlement. The financial liabilities at FVTPL with carrying amount of RMB1,080,666,000 as at 30 June 2022 are classified as non-current as set out in Note 25. Upon the application of the amendments, in addition to the obligation to redeem through cash settlement, the transfer of equity instruments that do not meet equity instruments classification also constitute settlement of the instruments. The financial liabilities at FVTPL amounting to RMB1,080,666,000 would continue to be classified as non-current.

Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 4 to the Historical Financial Information, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

As at 30 June 2022, the carrying amount of right-of-use assets and lease liabilities of lease transactions which the tax deductions are attributable to the lease liabilities, are RMB15,740,000 and RMB17,858,000, respectively. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The cumulative effect of initially applying the amendments will be recognized as an adjustment to the opening balance of accumulated losses at the beginning of the earliest comparative period presented. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment* (“IFRS 2”), leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the entities now comprising the Group. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group’s interests in existing subsidiaries

Changes in the Group’s interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group’s and the non-controlling interests’ proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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.

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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.

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.

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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.

Lease modifications

The Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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 as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Lease income which are derived from the Group’s ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sale and leaseback transactions

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a seller-lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognize the assets and accounts for the transfer proceeds as other borrowings within the scope of IFRS 9.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred as the Group does not have any qualifying asset.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Employment benefits

Retirement benefits costs

Payments to the defined contribution retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

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Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Share-based payments

Equity-settled share-based payment transactions

Shares/Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognized in share-based payments reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based payments reserve will be transferred to accumulated losses.

When shares granted are vested, the amount previously recognized in share-based payments reserve will be transferred to share premium.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years/periods and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for rental, use in provision of services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Internally-generated intangible assets – research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any).

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable 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.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and lease receivables, other receivables, rental deposits, restricted deposits and bank balances) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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The Group always recognizes lifetime ECL for trade and lease receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;

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- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
 - (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- (iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

- (v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade and lease receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for trade and lease receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For provision matrix assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and lease receivables where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

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Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by group entities are recognized at the proceeds received, net of direct [REDACTED].

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

The financial liabilities at FVTPL represented Series of Investments in LX Technology and Preferred Shares issued by the Company, which contain redemption features and/or other embedded derivatives, are designated as financial liabilities at FVTPL. The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

The warrants (“Warrants”) issued by the Company which are classified as derivatives are initially recognized at fair value at the date when the contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

Fair values of the Group’s financial liabilities at FVTPL are determined in the manner described in note 25.

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Financial liabilities at amortized cost

Financial liabilities including trade and other payables, borrowings and amounts due to subsidiaries, are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 30 June 2022 as set out in note 25. 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 31 December 2019, 2020 and 2021 and 30 June 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. The fair value of the financial liabilities at FVTPL of the Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 was approximately RMB256,841,000, RMB606,533,000, RMB1,117,083,000 and RMB1,080,666,000, respectively and details are set out in note 25.

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. The carrying amount of the property, plant and equipment of the Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 is approximately RMB327,840,000, RMB512,526,000, RMB735,165,000 and RMB794,262,000, respectively.

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6. SEGMENT INFORMATION AND REVENUE

Segment Information

Information reported to the management of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment focuses on revenue analysis. No other discrete financial information is provided other than the Group’s segment revenue and the Group’s results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

Specifically, the Group’s reportable segments under IFRS 8 are as follows:

- (1) Recycling business
- (2) Device subscription services

For year ended 31 December 2019

	Device subscription services RMB’000	Recycling business RMB’000	Total RMB’000
Device recycling income	–	302,844	302,844
Device subscription services			
– Short-term device subscription (<i>note 6(i)</i>)	13,650	–	13,650
– Long-term device subscription (<i>note 6(iv)</i>)	68,435	–	68,435
IT technical subscription services	115,410	–	115,410
	<u>197,495</u>	<u>302,844</u>	<u>500,339</u>

For year ended 31 December 2020

	Device subscription services RMB’000	Recycling business RMB’000	Total RMB’000
Device recycling income	–	765,197	765,197
Device subscription services			
– Short-term device subscription (<i>note 6(i)</i>)	26,511	–	26,511
– Long-term device subscription (<i>note 6(iv)</i>)	117,336	–	117,336
IT technical subscription services	113,125	–	113,125
	<u>256,972</u>	<u>765,197</u>	<u>1,022,169</u>

For year ended 31 December 2021

	Device subscription services RMB’000	Recycling business RMB’000	Total RMB’000
Device recycling income	–	924,408	924,408
Device subscription services			
– Short-term device subscription (<i>note 6(i)</i>)	48,043	–	48,043
– Long-term device subscription (<i>note 6(iv)</i>)	217,559	–	217,559
IT technical subscription services	140,392	–	140,392
	<u>405,994</u>	<u>924,408</u>	<u>1,330,402</u>

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For the six months ended 30 June 2021 (unaudited)

	Device subscription services	Recycling business	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Device recycling income	–	357,806	357,806
Device subscription services			
– Short-term device subscription (<i>note 6(i)</i>)	17,256	–	17,256
– Long-term device subscription (<i>note 6(iv)</i>)	97,752	–	97,752
IT technical subscription services	64,112	–	64,112
	<u>179,120</u>	<u>357,806</u>	<u>536,926</u>

For the six months ended 30 June 2022

	Device subscription services	Recycling business	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Device recycling income	–	632,117	632,117
Device subscription services			
– Short-term device subscription (<i>note 6(i)</i>)	27,126	–	27,126
– Long-term device subscription (<i>note 6(iv)</i>)	123,241	–	123,241
IT technical subscription services	71,529	–	71,529
	<u>221,896</u>	<u>632,117</u>	<u>854,013</u>

Geographical information

The Group operated within one geographical segment during the Track Record Period because all of its revenue is generated in the PRC based on location of goods delivered and services rendered and all of its non-current assets are located in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total sales of the Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Customer A (<i>note</i>)	N/A*	105,014	N/A*	N/A*	N/A*
Customer B (<i>note</i>)	N/A	N/A*	N/A*	N/A*	169,398

Note: Revenue from customers A and B are derived from device recycling income. During the Track Record Period, no other customers contributed over 10% of the total revenue of the Group.

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the relevant year/period.

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Revenue

(i) *Disaggregation of revenue from contracts with customers*

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000	2022 RMB’000
				<i>(unaudited)</i>	
Type of goods or services					
Device recycling income	302,844	765,197	924,408	357,806	632,117
IT technical subscription services	115,410	113,125	140,392	64,112	71,529
Short-term device subscription	13,650	26,511	48,043	17,256	27,126
Total revenue from contracts with customers	431,904	904,833	1,112,843	439,174	730,772
Timing of revenue recognition					
A point in time	302,844	765,197	924,408	357,806	632,117
Over time	129,060	139,636	188,435	81,368	98,655
Total	431,904	904,833	1,112,843	439,174	730,772

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000	2022 RMB’000
				<i>(unaudited)</i>	
Recycling business	302,844	765,197	924,408	357,806	632,117
Device subscription services	129,060	139,636	188,435	81,368	98,655
Revenue from contracts with customers	431,904	904,833	1,112,843	439,174	730,772
Leases income from device subscription services <i>(note 6(iv))</i>	68,435	117,336	217,559	97,752	123,241
Total revenue	500,339	1,022,169	1,330,402	536,926	854,013

(ii) *Performance obligations for contracts with customers*

The Group de-commissions IT devices from corporate users for selling through external e-commerce platforms or own platform. The device recycling income represents income from sales of the recycled devices and revenue is recognized when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been delivered out to customers’ designated locations or picked up by customers. The Group requests a deposit of total consideration from certain customers when they entered into contracts with the Group. Contract liabilities are recognized when the Group receives such deposits from customers before goods are transferred.

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Short-term device subscription services are one-time packages to customers with short-term equipment needs for events such as offline large-scale examination, exhibitions, technology conferences, shopping festival or other business activities. The Group provide the IT devices together with on-site services for network set up, maintenance and repairment in case of device failure and timely retrieval of devices upon completion of use of the devices. Such contracts are assessed to be service contracts under IFRS 15 and revenue is recognized over time as the customers simultaneously receive and consume the benefits provided by the Group’s performance as the Group performs. The subscription period is usually less than three months and the revenue is recognized on straight line basis over the subscription term. The customers generally pay one-time service fees with credit term of 0 to 180 days.

Long-term device subscription services include provision of IT devices to customers for a minimum period of six months with a periodic plan. The Group also provide IT technical subscription services coupled with the device subscription services during the subscription period. The contracts of long-term device subscription services are assessed to include both lease (as disclosed in note 6(iv) below) and non-lease components (IT technical subscription services). The customers generally pay subscription fees including the IT technical subscription services monthly or quarterly with credit terms of 0 to 180 days.

Revenue relating to the IT technical subscription services, which primarily include providing stand-ready services to solve problems and repairs and maintenance services in relation to the IT devices and coupled with device subscription services, standalone, or on a project basis, is recognized over time on a straight line basis over the subscription period, as the customers simultaneously receive and consume the benefits provided by the Group’s performance as the Group performs.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019, 2020 and 2021 and 30 June 2022 and the expected timing of recognising revenue are as follows:

At 31 December 2019

	Device recycling income RMB’000	IT technical subscription services RMB’000	Short-term device subscription services RMB’000
Within one year	9,871	45,796	373
More than one year but not more than two years	–	9,988	–
More than two years	–	1,630	–
	<u>9,871</u>	<u>57,414</u>	<u>373</u>

At 31 December 2020

	Device recycling income RMB’000	IT technical subscription services RMB’000	Short-term device subscription services RMB’000
Within one year	4,228	55,369	502
More than one year but not more than two years	–	17,561	–
More than two years	–	6,592	–
	<u>4,228</u>	<u>79,522</u>	<u>502</u>

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At 31 December 2021

	Device recycling income RMB’000	IT technical subscription services RMB’000	Short-term device subscription services RMB’000
Within one year	1,498	76,855	630
More than one year but not more than two years	–	29,199	–
More than two years	–	10,764	–
	<u>1,498</u>	<u>116,818</u>	<u>630</u>

At 30 June 2022

	Device recycling income RMB’000	IT technical subscription services RMB’000	Short-term device subscription services RMB’000
Within one year	1,301	113,251	3,415
More than one year but not more than two years	–	36,396	–
More than two years	–	12,729	–
	<u>1,301</u>	<u>162,376</u>	<u>3,415</u>

- (iv) The revenue from long-term device subscription of equipment to the customers with fixed subscription payments for years ended 31 December, 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 amounted to RMB68,435,000, RMB117,336,000, RMB217,559,000, RMB97,752,000 (unaudited) and RMB123,241,000, respectively which represent revenue arising from operating leases under IFRS 16. Subscription deposits are waived as long as the customers met the required credit information and passed the Group’s internal risk assessment.

Undiscounted lease payments receivable on leases are as follows:

	At 31 December			At 30 June 2022
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within one year	54,772	107,845	157,533	244,108
In the second year	15,494	32,561	59,713	77,414
In the third year	2,008	12,484	20,301	27,235
	<u>72,274</u>	<u>152,890</u>	<u>237,547</u>	<u>348,757</u>

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7. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000 <i>(unaudited)</i>	2022 RMB’000
Bank interest income	262	560	669	395	182
Government subsidies	3,784	10,794	10,672	3,870	5,292
Compensation income from customers	17	1,773	3,520	1,098	3,059
Others	–	444	–	–	–
	<u>4,063</u>	<u>13,571</u>	<u>14,861</u>	<u>5,363</u>	<u>8,533</u>

Government subsidies mainly represent industry-specific subsidies granted by the government authorities with no future related costs to be incurred. There are no unfulfilled conditions relating to such government subsidies recognized.

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000 <i>(unaudited)</i>	2022 RMB’000
Interest expenses on borrowings	10,195	17,393	34,763	13,766	21,370
Interest expenses on lease liabilities	1,803	1,713	1,538	814	625
	<u>11,998</u>	<u>19,106</u>	<u>36,301</u>	<u>14,580</u>	<u>21,995</u>

9. INCOME TAX (CREDIT) EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000 <i>(unaudited)</i>	2022 RMB’000
Current tax:					
PRC Enterprise Income Tax (“EIT”)					
Current year	170	293	174	106	7
Deferred tax (<i>note 16</i>)	(7,026)	1,871	2,257	181	(1,282)
	<u>(6,856)</u>	<u>2,164</u>	<u>2,431</u>	<u>287</u>	<u>(1,275)</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is exempted from the Cayman Islands income tax.

No Hong Kong profits tax had been provided as there was no business operation that is subject to Hong Kong profits tax during the Track Record Period.

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The income tax provision of the subsidiaries operating in the PRC has been calculated at the tax rate of 25% on the taxable income for the reporting period, except for LX Technology, based on the existing legislation, interpretations and practices in respect thereof.

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 in the PRC were qualified as “Small Low-profit Enterprise”. From 1 January 2019 to 31 December 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 1 January 2022 to 31 December 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 to be 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.

The income tax (credit) expense for the Track Record Period can be reconciled to the loss before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Loss before tax	(67,202)	(174,963)	(446,271)	(267,850)	(7,105)
Tax at EIT rate of 25%	(16,801)	(43,741)	(111,568)	(66,962)	(1,776)
Tax effect of expenses not deductible for tax purpose	3,842	47,684	109,741	70,060	6,681
Tax effect of income not taxable for tax purpose	–	–	–	–	(9,111)
Tax effect of tax losses not recognized	7,090	356	9,135	1,291	4,471
Utilization of tax losses previously not recognized	–	(971)	–	(1,136)	(127)
Tax effect of Super Deduction	(1,312)	(1,449)	(2,029)	(900)	(1,163)
Tax effect of preferential tax rate	325	441	(2,848)	(2,066)	(250)
Others	–	(156)	–	–	–
Income tax (credit) expense for the year/period	<u>(6,856)</u>	<u>2,164</u>	<u>2,431</u>	<u>287</u>	<u>(1,275)</u>

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10. LOSS FOR THE YEAR/PERIOD

Loss for the year/period has been arrived at after charging (crediting):

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000 (unaudited)	2022 RMB’000
Auditor’s remuneration	224	241	519	12	66
Depreciation of property, plant and equipment and right-of-use assets [REDACTED] of financial liabilities at FVTPL included in other expenses	82,239	131,209	193,343	85,910	112,173
Write-down (reversal of write-down) of inventories (note)	1,722	–	–	–	–
Cost of inventories recognized as an expense	956	1,113	(1,012)	(314)	(219)
Directors’ emoluments (note 11)	300,516	707,720	892,608	333,154	615,804
Other staff costs:	1,288	2,055	2,340	1,246	6,015
Salaries, allowances and other benefits in kind	86,596	80,617	115,223	48,663	65,326
Retirement benefit scheme contributions	5,369	498	6,813	2,143	4,665
Equity-settled share-based payments expense	–	–	–	–	18,999
	<u>93,253</u>	<u>83,170</u>	<u>124,376</u>	<u>52,052</u>	<u>95,005</u>

Note: During the year ended 31 December 2021 and the six months ended 30 June 2021 and 2022, there was an increase in the net realisable value of certain merchandise goods due to market condition. As a result, a reversal of write-down of RMB1,012,000, RMB314,000 (unaudited) and RMB219,000, respectively has been recognized and included in cost of sales during the year/period.

11. DIRECTORS’ AND CHIEF EXECUTIVE’S EMOLUMENTS

(a) Executive directors

Details of the emoluments paid or payable to the directors of the Company (including emoluments for the services as directors of LX Technology prior to becoming the directors of the Company) by the group entities during the Track Record Period are as follows:

	Date of appointment as director	Year ended 31 December 2019				Total RMB’000
		Fees RMB’000	Salaries, allowances and benefit in kind RMB’000	Performance related bonus RMB’000	Retirement benefit scheme contributions RMB’000	
Executive directors:						
Mr. Hu Zuoxiong (Chief executive officer)	10 January 2022	–	600	–	34	634
Mr. Chen Xiuwei	10 January 2022	–	120	–	–	120
Mr. Cao Weijun	10 January 2022	–	458	69	7	534
Total		<u>–</u>	<u>1,178</u>	<u>69</u>	<u>41</u>	<u>1,288</u>

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Year ended 31 December 2020						
Date of appointment as director	Salaries, allowances and benefit in kind		Performance related bonus	Retirement benefit scheme contributions	Total	
	Fees	in kind	bonus	contributions	Total	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Executive directors:						
Mr. Hu Zuoxiong (Chief executive officer)	10 January 2022	–	585	–	3	588
Mr. Chen Xiuwei	10 January 2022	–	920	–	1	921
Mr. Cao Weijun	10 January 2022	–	508	37	1	546
Total	–	2,013	37	5	2,055	

Year ended 31 December 2021						
Date of appointment as director	Salaries, allowances and benefit in kind		Performance related bonus	Retirement benefit scheme contributions	Total	
	Fees	in kind	bonus	contributions	Total	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Executive directors:						
Mr. Hu Zuoxiong (Chief executive officer)	10 January 2022	–	614	35	39	688
Mr. Chen Xiuwei	10 January 2022	–	976	40	16	1,032
Mr. Cao Weijun	10 January 2022	–	573	38	9	620
Non-executive director:						
Mr. Li Jing	28 March 2022	–	–	–	–	–
Total	–	2,163	113	64	2,340	

For the six months ended 30 June 2021 (unaudited)						
Date of appointment as director	Salaries, allowances and benefit in kind		Performance related bonus	Retirement benefit scheme contributions	Total	
	Fees	in kind	bonus	contributions	Total	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Executive directors:						
Mr. Hu Zuoxiong (Chief executive officer)	10 January 2022	–	314	35	18	367
Mr. Chen Xiuwei	10 January 2022	–	496	40	8	544
Mr. Cao Weijun	10 January 2022	–	293	38	4	335
Non-executive director:						
Mr. Li Jing	28 March 2022	–	–	–	–	–
Total	–	1,103	113	30	1,246	

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	Date of appointment as director	For the six months ended 30 June 2022					Total RMB’000
		Fees RMB’000	Salaries, allowances and benefit in kind	Performance related bonus	Equity-settled share-based payments expense	Retirement benefit scheme contributions	
			RMB’000	RMB’000	RMB’000	RMB’000	
Executive directors:							
Mr. Hu Zuoxiong (Chief executive officer)	10 January 2022	–	300	100	2,712	22	3,134
Mr. Chen Xiuwei	10 January 2022	–	480	176	1,844	9	2,509
Mr. Cao Weijun	10 January 2022	–	273	94	–	5	372
Non-executive director:							
Mr. Li Jing	28 March 2022	–	–	–	–	–	–
Total		–	1,053	370	4,556	36	6,015

Mr. Li Jing was a director of LX Technology in 2021 prior to being appointed as a non-executive director of the Company on 28 March 2022 and no emoluments were paid to him during the Track Record Period.

The executive directors’ emoluments shown above were for their services in connection with the management of the affairs of entities now comprising the Group.

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of director has waived or agreed to waive any emoluments during the Track Record Period.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 included two executive directors, details of whose remuneration are set out in note 11 above. The emoluments of the remaining three highest paid employees of the Group for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000	2022 RMB’000
Salaries, allowances and benefits in kind	1,944	1,964	2,336	1,206	1,138
Retirement benefit scheme contributions	88	24	95	45	35
Equity-settled share-based payments expense	–	–	–	–	8,298
	2,032	1,988	2,431	1,251	9,471

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The number of highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019 No. of employees	2020 No. of employees	2021 No. of employees	2021 No. of employees	2022 No. of employees
<i>Nil to HK\$1,000,000</i>	3	3	3	3	–
HK\$2,500,001 to HK\$3,000,000	–	–	–	–	2
HK\$5,500,001 to HK\$6,000,000	–	–	–	–	1
Total	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Track Report Period, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND

No dividend was declared or paid by the Company’s subsidiaries in respect of the Track Record Period, and no dividend was paid or declared by the Company since its incorporation, nor any dividend been proposed since the end of the Track Report Period.

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	For the year ended 31 December			Six months ended 30 June	
	2019 <i>RMB’000</i>	2020 <i>RMB’000</i>	2021 <i>RMB’000</i>	2021 <i>RMB’000</i>	2022 <i>RMB’000</i>
Loss for the year/period attributable to owners of the Company for the purpose of basic loss per shares	(60,187)	(177,302)	(448,702)	(268,137)	(5,830)
Effect of dilutive potential loss in respect of financial liabilities at FVTPL	–	–	–	–	(36,417)
Loss for the purposes of diluted loss per share	<u>(60,187)</u>	<u>(177,302)</u>	<u>(448,702)</u>	<u>(268,137)</u>	<u>(42,247)</u>

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	For the year ended 31 December			Six months ended	
	2019	2020	2021	30 June	
				2021	2022
				<i>(unaudited)</i>	
Number of shares					
Weighted average number of ordinary shares for the purpose of basic loss per share	121,137,068	121,137,068	120,189,303	121,116,517	119,277,206
Effect of dilutive potential ordinary shares:					
– Financial liabilities at FVTPL	–	–	–	–	132,842,193
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>121,137,068</u>	<u>121,137,068</u>	<u>120,189,303</u>	<u>121,116,517</u>	<u>252,119,399</u>

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share has been determined on the assumption that the Group Reorganization as disclosed in note 2 and the Capitalization Issue (as defined and detailed in note 38(b)) had been effected since 1 January 2019, and without taking into account the [REDACTED] shares (after the effect of Capitalization Issue) held by LX Brothers Technology Limited and Beauty Bear Technology Limited for employee incentive platforms of the Group.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021, the Series of Investments in LX Technology (note 25) were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 are the same as basic loss per share for the respective year/period. For the six months ended 30 June 2022, share options (note 37) and restricted share award (note 37) were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive.

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15. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Leased properties RMB'000	Equipment for subscription RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Total RMB'000
At 1 January 2019	13,313*	254,355	1,191	2,659	568	272,086
Additions	25,132	233,989	1,208	600	4,632	265,561
Disposal/written off	–	–	(12)	–	(17)	(29)
Transfer to inventories	–	(30,260)	–	–	–	(30,260)
Modification	(2,838)	–	–	–	–	(2,838)
At 31 December 2019	35,607	458,084	2,387	3,259	5,183	504,520
Additions	1,328	350,556	3,787	6	318	355,995
Disposal/written off	–	–	(19)	–	(124)	(143)
Transfer to inventories	–	(94,287)	–	–	–	(94,287)
Modification	(2,164)	–	–	–	–	(2,164)
At 31 December 2020	34,771	714,353	6,155	3,265	5,377	763,921
Additions	6,064	486,175	1,852	539	1,982	496,612
Disposal/written off	–	–	(129)	–	(523)	(652)
Transfer to inventories	–	(159,537)	–	–	–	(159,537)
Modification	(3,717)	–	–	–	–	(3,717)
At 31 December 2021	37,118	1,040,991	7,878	3,804	6,836	1,096,627
Additions	1,459	202,819	60	49	76	204,463
Disposal/written off	–	(36,731)	(119)	(68)	(1,031)	(37,949)
Transfer to inventories	–	(46,688)	–	–	–	(46,688)
Modification	(940)	–	–	–	–	(940)
At 30 June 2022	<u>37,637</u>	<u>1,160,391</u>	<u>7,819</u>	<u>3,785</u>	<u>5,881</u>	<u>1,215,513</u>
DEPRECIATION						
At 1 January 2019	–	79,285	666	518	117	80,586
Provided for the year	6,867	73,741	398	554	679	82,239
Eliminated on disposal/written off	–	–	(11)	–	(17)	(28)
Eliminated on transfer to inventories	–	(14,857)	–	–	–	(14,857)
Eliminated on modification	(313)	–	–	–	–	(313)
At 31 December 2019	6,554	138,169	1,053	1,072	779	147,627
Provided for the year	7,778	120,208	787	633	1,803	131,209
Eliminated on disposal/written off	–	–	(18)	–	(124)	(142)
Eliminated on transfer to inventories	–	(47,738)	–	–	–	(47,738)
Eliminated on modification	(1,469)	–	–	–	–	(1,469)
At 31 December 2020	12,863	210,639	1,822	1,705	2,458	229,487
Provided for the year	8,732	180,745	1,135	696	2,035	193,343
Eliminated on disposal/written off	–	–	(61)	–	(523)	(584)
Eliminated on transfer to inventories	–	(76,307)	–	–	–	(76,307)
Eliminated on modification	(3,220)	–	–	–	–	(3,220)

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	Leased properties RMB'000	Equipment for subscription RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Total RMB'000
At 31 December 2021	18,375	315,077	2,896	2,401	3,970	342,719
Provided for the period	4,462	105,751	528	323	1,109	112,173
Eliminated on disposal/written off	–	(18,272)	(100)	(67)	(1,031)	(19,470)
Eliminated on transfer to inventories	–	(28,971)	–	–	–	(28,971)
Eliminated on modification	(940)	–	–	–	–	(940)
At 30 June 2022	<u>21,897</u>	<u>373,585</u>	<u>3,324</u>	<u>2,657</u>	<u>4,048</u>	<u>405,511</u>
CARRYING VALUE						
At 31 December 2019	<u>29,053</u>	<u>319,915</u>	<u>1,334</u>	<u>2,187</u>	<u>4,404</u>	<u>356,893</u>
At 31 December 2020	<u>21,908</u>	<u>503,714</u>	<u>4,333</u>	<u>1,560</u>	<u>2,919</u>	<u>534,434</u>
At 31 December 2021	<u>18,743</u>	<u>725,914</u>	<u>4,982</u>	<u>1,403</u>	<u>2,866</u>	<u>753,908</u>
At 30 June 2022	<u>15,740</u>	<u>786,806</u>	<u>4,495</u>	<u>1,128</u>	<u>1,833</u>	<u>810,002</u>

* After the adjustments upon application of IFRS 16 as disclosed in note 3, the leased properties amounted to RMB13,313,000 are recognized as right-of-use assets.

The above items of property, plant and equipment, after taking into account the residual values, where applicable, are depreciated on a straight-line basis at the following rates per annum:

Leased properties	Over the lease terms of the leased properties
Equipment for subscription	20%-33.3%
Office equipment	20%-33.3%
Motor vehicles	20%-33.3%
Leasehold improvement	20% or the lease terms of the leased properties, whichever is shorter

The Group leases out the equipment for subscription included within property, plant and equipment under operating leases. The leases typically run for an initial period of few days to 3 years during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022. None of the leases includes variable lease payments.

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The Group as lessee

Right-of-use assets (included in the property, plant and equipment and right-of-use assets)

	Leased properties <i>RMB’000</i>
Carrying amount	
At 31 December 2019	29,053
At 31 December 2020	21,908
At 31 December 2021	18,743
At 30 June 2022	15,740
Depreciation charge	
For the year ended 31 December 2019	6,867
For the year ended 31 December 2020	7,778
For the year ended 31 December 2021	8,732
For the six months ended 30 June 2021 (unaudited)	4,329
For the six months ended 30 June 2022	4,462

	Year ended 31 December			Six months ended	
	2019	2020	2021	30 June	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>2021</i>	<i>2022</i>
				<i>(unaudited)</i>	
				<i>RMB’000</i>	<i>RMB’000</i>
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16	918	107	25	25	–
Total cash outflow for leases	7,818	9,034	9,984	4,784	5,389
Additions to right-of-use assets	25,132	1,328	6,064	5,648	1,459

During the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, the Group leases offices and warehouses for its operations. Lease contracts are entered into for fixed term of 1 year to 6 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

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The Group regularly entered into short-term leases for staff quarters and office equipment in 2019, 2020 and 2021. As at 31 December 2019, 2020 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in above. The Group has no short-term leases as at 30 June 2022.

During the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, the Group has entered into new and has renewed lease agreements for the use of offices and warehouses ranging from 1 year to 6 years. On the lease commencement or lease renewal, the Group recognized right-of-use assets of RMB25,132,000, RMB1,328,000, RMB6,064,000, RMB5,648,000 (unaudited) and RMB1,459,000 and a corresponding adjustment of the same amount to lease liabilities during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively. In addition, the Group terminated certain lease arrangement which constituted lease modifications. The reduction of the Group’s lease liabilities of RMB2,635,000, RMB733,000, RMB574,000, RMB574,000 (unaudited) and nil and a corresponding adjustment of the right-of-use assets of RMB2,525,000, RMB695,000, RMB497,000, RMB497,000 (unaudited) and nil were recognized and result in gain on modification of RMB110,000, RMB38,000, RMB77,000, RMB77,000 (unaudited) and nil recognized in profit or loss during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively.

Details of the lease maturity analysis of lease liabilities are set out in notes 24(b) and 32(b).

16. DEFERRED TAX ASSETS

	At 31 December		At 30 June	
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Deferred tax assets	9,609	7,738	5,481	6,763

The following are the major deferred tax assets recognized and movements thereon during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022.

	Unrealized profit	ECL provision	Write-down of inventories	Tax losses	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2019	2,109	474	–	–	2,583
(Charge) credit to profit or loss	(726)	163	239	7,350	7,026
At 31 December 2019	1,383	637	239	7,350	9,609
(Charge) credit to profit or loss	(473)	248	278	(1,924)	(1,871)
At 31 December 2020	910	885	517	5,426	7,738
(Charge) credit to profit or loss	(191)	385	(253)	(2,198)	(2,257)
At 31 December 2021	719	1,270	264	3,228	5,481
(Charge) credit to profit or loss	(163)	602	(55)	898	1,282
At 30 June 2022	556	1,872	209	4,126	6,763

At the end of each reporting period, the Group has unused tax losses of approximately RMB70,596,000, RMB68,286,000, RMB89,983,000 and RMB113,072,000, respectively available for offset against future profits. A deferred tax asset has been recognized in respect of RMB36,021,000, RMB36,171,000, RMB21,330,000 and RMB27,043,000, respectively of such losses and no deferred tax asset has been recognized in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognized tax losses as at 31 December 2019, 2020 and 2021 and 30 June 2022 of RMB34,575,000, RMB32,115,000, RMB68,653,000 and RMB86,029,000, respectively, will be carried forward and expired in next 5 years from the respective year/period end dates.

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17. INVENTORIES

	At 31 December		At 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2022 RMB’000
Merchandise goods	45,947	122,041	74,307	63,102

18. TRADE AND LEASE RECEIVABLES

	At 31 December		At 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2022 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
	49,970	40,782	59,085	66,872
Less: allowance for credit losses	(2,612)	(3,675)	(5,645)	(8,566)
	<u>47,358</u>	<u>37,107</u>	<u>53,440</u>	<u>58,306</u>

As at 1 January 2019, trade and lease receivables amounted to RMB19,164,000.

The following is an aged analysis of trade and lease receivables, net of allowance for credit losses, presented based on the invoice dates at the end of each reporting period:

	At 31 December		At 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2022 RMB’000
0-30 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
	<u>47,358</u>	<u>37,107</u>	<u>53,440</u>	<u>58,306</u>

As at 31 December 2019, 2020 and 2021 and 30 June 2022, included in the Group’s trade and lease receivables balance are debtors with aggregate carrying amount of RMB20,565,000, RMB17,146,000, RMB21,688,000 and RMB17,127,000 which are past due as at the respective reporting date. Out of the past due balances, RMB10,954,000, RMB7,295,000, RMB11,672,000 and RMB7,539,000 has been past due over 90 days and is not considered as in default due to the history of cooperation and the sound collection history of the debtors.

Details of impairment assessment of trade and lease receivables are set out in note 32(b).

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19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group

	At 31 December		At 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 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
	<u>80,183</u>	<u>135,593</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Represented by:				
– Non-current	17,695	16,452	6,370	4,782
– Current	62,488	119,141	134,329	132,117
	<u>80,183</u>	<u>135,593</u>	<u>140,699</u>	<u>136,899</u>
– third parties	72,177	88,815	113,381	116,285
– related parties (note)	8,006	46,778	27,318	20,614
	<u>80,183</u>	<u>135,593</u>	<u>140,699</u>	<u>136,899</u>

Note: The Group has prepaid for certain operating expenses, including marketing and promotion services, maintenance services and logistics services, and purchase deposits to its related parties at the end of each reporting period for those transactions disclosed in note 35.

The Company

	At 30 June 2022 RMB'000
Deferred [REDACTED]	<u>[REDACTED]</u>

Details of impairment assessment of other receivables and deposits are set out in note 32(b).

20. BANK BALANCES AND CASH/RESTRICTED DEPOSITS

Bank balances as at 31 December 2019, 2020 and 2021 and 30 June 2022 carry interest at market rates which range from 0.3% to 1.5% per annum and the restricted deposits carry fixed interest rate of 0.3% per annum.

Restricted deposits amounting to RMB11,572,000, RMB18,327,000, RMB28,656,000 and RMB32,773,000 as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively represented the secure deposits paid for borrowings granted to the Group and will be released upon repayment of borrowings. Restricted deposits amounting to RMB1,000,000, RMB1,000,000 and RMB1,000,000 as at 31 December 2020 and 2021 and 30 June 2022, respectively represented the deposits paid to a bank for letter of guarantee and will be released after 31 December 2023.

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Of the total restricted deposits, RMB7,312,000, RMB10,175,000, RMB20,233,000 and RMB14,967,000 which are not expected to be released within 12 months from the respective reporting dates are presented under non-current assets as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively.

Details of impairment assessment of bank balances and restricted deposits are set out in note 32(b).

21. TRADE PAYABLES

	2019 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	At 30 June 2022 <i>RMB'000</i>
Third parties	41,098	60,784	54,637	108,974
Related parties	64,570	74,585	13,656	11,708
	<u>105,668</u>	<u>135,369</u>	<u>68,293</u>	<u>120,682</u>

The credit period on trade payables ranges from 0 to 90 days. The aging analysis of the Group’s trade payables based on the invoice dates at the end of each reporting period are as follows:

	2019 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	At 30 June 2022 <i>RMB'000</i>
Within 6 months	73,855	78,948	52,548	92,501
6 – 12 months	27,331	14,083	1,167	25,809
Over 1 year	4,482	42,338	14,578	2,372
	<u>105,668</u>	<u>135,369</u>	<u>68,293</u>	<u>120,682</u>

22. OTHER PAYABLES AND ACCRUALS

The Group

	2019 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	At 30 June 2022 <i>RMB'000</i>
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
	<u>40,575</u>	<u>37,140</u>	<u>58,396</u>	<u>54,553</u>
Represented by:				
– <i>third parties</i>	39,070	34,252	54,769	49,640
– <i>related parties (note)</i>	1,505	2,888	3,627	4,913
	<u>40,575</u>	<u>37,140</u>	<u>58,396</u>	<u>54,553</u>

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Note: The Group has payable to its related parties at the end of each reporting period for certain operating expenses, including marketing and promotion services as disclosed in note 35.

The Company

	At 30 June 2022 RMB’000
Accrued [REDACTED]	[REDACTED]
Accrued [REDACTED]	[REDACTED]
	[REDACTED]

23. CONTRACT LIABILITIES

	At 31 December			At 30 June
	2019	2020	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000
Deposits received from customers in relation to device recycling income	9,871	4,228	1,498	1,301

As at 1 January 2019, contract liabilities amounted to RMB585,000. The directors of the Company considered that the entire balance of contract liabilities as at 31 December 2019, 2020 and 2021 and 30 June 2022 would be realized within the Group’s normal operating cycle based on the Group’s earliest obligation to sell the recycled devices to the customers and are classified as current liabilities.

The following table shows the amount of revenue recognized during the Track Record Period relates to carried-forward contract liabilities at the beginning of the year/period.

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year/period	585	9,871	4,228	4,228	1,391

Typical payment terms which impact on the amount of contract liabilities recognized are set out in note 6(ii).

The decrease in contract liabilities as at 31 December 2020, 31 December 2021 and 30 June 2022 was mainly due to the decrease in recycled devices sale contracts before the year end.

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24. BORROWINGS AND LEASE LIABILITIES

	2019 RMB’000	At 31 December 2020 RMB’000	2021 RMB’000	At 30 June 2022 RMB’000
Borrowings (note 24(a))	176,343	303,564	541,584	653,511
Lease liabilities (note 24(b))	30,713	24,094	21,163	17,858
	<u>207,056</u>	<u>327,658</u>	<u>562,747</u>	<u>671,369</u>
Represented by:				
– current	133,157	220,033	400,878	500,850
– non-current	73,899	107,625	161,869	170,519
	<u>207,056</u>	<u>327,658</u>	<u>562,747</u>	<u>671,369</u>

(a) Borrowings

	2019 RMB’000	At 31 December 2020 RMB’000	2021 RMB’000	At 30 June 2022 RMB’000
Fixed rate bank borrowings	68,050	118,882	211,606	333,406
Fixed rate other borrowings	108,293	184,682	329,978	320,105
	<u>176,343</u>	<u>303,564</u>	<u>541,584</u>	<u>653,511</u>
Represented by:				
– secured (note i)	49,273	49,961	140,382	117,062
– unsecured (note ii)	127,070	253,603	401,202	536,449
	<u>176,343</u>	<u>303,564</u>	<u>541,584</u>	<u>653,511</u>
– third parties	176,343	303,564	514,773	636,426
– related parties (note iii)	–	–	26,811	17,085
	<u>176,343</u>	<u>303,564</u>	<u>541,584</u>	<u>653,511</u>

Notes:

- i. The secured borrowings as at 31 December 2019, 2020 and 2021 and 30 June 2022 are secured by restricted deposits and/or equipment for subscription owned by the Group.
- ii. The unsecured borrowings as at 31 December 2019, 2020 and 2021 and 30 June 2022 are guaranteed by a director, Mr. Hu Zuoxiong, his wife, Ms. Zhao Lin, and an independent third party. [As represented by the directors of the Company, the guarantees provided will be released before [REDACTED] of the Company’s shares on the Stock Exchange].
- iii. The borrowings from related parties as at 31 December 2021 and 30 June 2022 are secured by the equipment for subscription, interest bearing ranged from 8.1% to 14.6% with original maturity of 2 years. The maximum amount of the borrowings is approximately to RMB39,200,000 and RMB28,384,000 during the year ended 31 December 2021 and the six months ended 30 June 2022, respectively. [As represented by the directors of the Company, the borrowings with related parties will be settled prior to [REDACTED] of the Company’s shares on the Stock Exchange.]

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	Bank borrowings				Other borrowings				Total			
	At 31 December		At 30 June		At 31 December		At 30 June		At 31 December		At 30 June	
	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The carrying amounts of the above borrowings are repayable:												
Within one year	60,772	85,427	171,798	259,307	65,064	128,137	218,626	232,644	125,836	213,564	390,424	491,951
Within a period of more than one year but not exceeding two years	2,278	33,455	37,583	62,099	43,229	56,545	104,507	85,337	45,507	90,000	142,090	147,436
Within a period of more than two years but not exceeding five years	5,000	-	2,225	12,000	-	-	6,845	2,124	5,000	-	9,070	14,124
	<u>68,050</u>	<u>118,882</u>	<u>211,606</u>	<u>333,406</u>	<u>108,293</u>	<u>184,682</u>	<u>329,978</u>	<u>320,105</u>	<u>176,343</u>	<u>303,564</u>	<u>541,584</u>	<u>653,511</u>

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group’s borrowings are as follows:

	At 31 December		At 30 June	
	2019	2020	2021	2022
Effective interest rate	<u>5.6% to 15.5%</u>	<u>5.4% to 15.5%</u>	<u>5.2% to 12.8%</u>	<u>4.0% to 12.0%</u>

(b) Lease Liabilities

	At 31 December		At 30 June	
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities payable:				
Within one year	7,321	6,469	10,454	8,899
Within a period of more than one year but not more than two years	6,454	7,710	5,032	4,638
Within a period of more than two years but not more than five years	14,672	9,475	5,677	4,321
Within a period of more than five years	2,266	440	-	-
	<u>30,713</u>	<u>24,094</u>	<u>21,163</u>	<u>17,858</u>
Less: Amount due for settlement with 12 months shown under current liabilities	<u>(7,321)</u>	<u>(6,469)</u>	<u>(10,454)</u>	<u>(8,899)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>23,392</u>	<u>17,625</u>	<u>10,709</u>	<u>8,959</u>

The weighted average incremental borrowing rate applied to lease liabilities was 6.4% as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively.

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25. FINANCIAL LIABILITIES AT FVTPL

LX Technology has completed several Series of Investments before/during the Track Record Period, details are set out below.

Series of Investments	Year of completion of the subscription	Number of investor(s)	Date of agreement	Registered capital of LX Technology subscribed RMB	Total considerations RMB’000
Series A	2018	3	11 May 2018	12,721,089	68,000
Series A through exercising warrant (note i)	2019	1	11 May 2018	3,367,347	18,000
Series B	2019	3	16 April 2019	15,558,076	130,000
Series C	2019	1	26 November 2019	2,221,705	20,500
Series D-1	2020	3	28 June 2020	13,672,033	160,000
Series D-2	2021	3	16 January 2021	3,845,260	60,000
Series D-3 (note ii)	2021	1	28 June 2021	221,636	5,000
Total				51,607,146	461,500

Notes:

- (i) Pursuant to the Series A investment agreement dated 11 May 2018, one of the Series A investors has been granted with a warrant for subscribing a maximum of RMB3,367,347 registered capital in LX Technology for a consideration of RMB18,000,000. On 13 December 2018, the directors of LX Technology approved the investor to exercise in full of the warrant and the consideration was fully settled in February 2019. As at 1 January 2019, the management of the Group applied discounted cash flow method to determine the underlying equity value of LX Technology and adopted equity allocation model based on the Black-Scholes option pricing model to determine the fair value of the warrant, which was RMB1,933,000.
- (ii) Pursuant to the Series D-3 investment agreement dated 28 June 2021, an investor agreed to acquire paid-up capital amounting to approximately RMB844,000 in LX Technology from Mr. Hu Zuoxiong and his controlled entity, Shenzhen LX Investment Partnership (Limited Partnership), both were equity owners of LX Technology, at an aggregate consideration of RMB11,634,000 (“Series D-3 Capital Transfer”) and made a capital contribution of RMB5,000,000 to LX Technology for subscribing an increased registered capital of RMB221,636 (“Series D-3 Capital Injection”). Upon completion of Series D-3 Capital Transfer and the Series D-3 Capital Injection, LX Technology agreed to grant the redemption right and liquidation preference right as set out below on those equity interests in LX Technology held by that investor (“Series D-3 Investment”).

In relation to the Series D-3 Capital Transfer, the difference of RMB10,790,000 between the paid-up capital of RMB844,000 transferred and the consideration of RMB11,634,000 for the Series D-3 Capital Transfer received by the relevant equity owners of LX Technology are recognized in other reserves as deemed distribution during the year ended 31 December 2021.

On 22 March 2022, the Company entered into shareholders’ agreements with its preferred shareholders, which are substitute for the agreements in relation to the Series of Investments as part of Group Reorganization. On 28 March 2022, the Company further entered into warrant agreements with four of its preferred shareholders, who are Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合伙)) (“Shanghai Yujun”), Shanghai Tong Yun Xin Xi Ji Shu Company Limited (“Dachen Chuangtong BVI”), Shanghai Jing Zhe Xin Xi Ji Shu Company Limited (“Dachen Chuangjing BVI”) and Shanghai Yuanzhe Enterprise Management Partnership (LLP) (上海元輒企業管理合夥企業(有限合伙)) (“Dachen Chuangyuan ODI”). Pursuant to the warrant agreements, Shanghai Yujun is entitled to subscribe for 10,664,729 Series B Preferred Shares and 3,005,786 Series D-2 Preferred Shares of the Company with the subscription price of RMB95,000,000 and RMB50,000,000, respectively. Dachen Chuangtong BVI is entitled to subscribe for 6,668,262 Series A Preferred Shares, 3,929,111 Series B Preferred Shares and 1,603,086 Series D-1 Preferred Shares of the Company with subscription price of RMB38,000,000,

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RMB35,000,000 and RMB20,000,000, respectively. Dachen Chuangjing BVI is entitled to subscribe for 3,206,172 Series D-1 Preferred Shares of the Company with total subscription price of RMB40,000,000. Dachen Chuangyuan ODI is entitled to subscribe for 1,754,805 Series A Preferred Shares of the Company with total subscription price of RMB10,000,000. The Warrants are exercisable commencing from the date hereof and no later than 31 March 2022 or such other date as agreed between the Company and the Warrants investors. The Warrants were fully exercised for the Preferred Shares on 6 April 2022.

The details of the issued Preferred Shares of the Company as at 30 June 2022 and at the date of this report are set out below:

Preferred Shares	Year of issue	Number of investor(s)	Total number of Preferred Shares issued	Subscription price per Preferred Share RMB	Total consideration RMB’000
Series A	2022	1	6,668,262	5.70	38,000
Series A through exercising warrant	2022	2	8,423,067	5.70	48,000
Series B through exercising warrant	2022	2	14,593,840	8.91	130,000
Series C	2022	1	2,084,011	9.84	20,500
Series D-1	2022	1	8,015,430	12.48	100,000
Series D-1 through exercising warrant	2022	2	4,809,258	12.48	60,000
Series D-2	2022	1	601,158	16.63	10,000
Series D-2 through exercising warrant	2022	1	3,005,786	16.63	50,000
Series D-3	2022	1	1,000,000	16.63	16,634
			49,200,812		473,134

Pursuant to the shareholders’ agreement, the key terms of Preferred Shares remain consistent with the key terms of Series of Investments as summarised as below:

Redemption rights

The Company or LX Technology (before completion of Group Reorganization) shall redeem Series A, Series B, Series C, Series D-1, Series D-2 and Series D-3 Preferred Shares or Series of Investments if:

- (i) The Company or LX Technology (before completion of Group Reorganization) fails to consummate an qualified [REDACTED] (the “Qualified [REDACTED]”) on or prior to 31 December 2023;
- (ii) reasonable judgement of the investors that the Company or LX Technology fails to consummate an Qualified [REDACTED] on or prior to 31 December 2023;
- (iii) change of more than one third of core management of the Company;
- (iv) in the case of making decisions without agreed procedures and authority, the Company or LX Technology has major issues such as property transfer, off-account sales, external loans, related party transactions and external guarantees and so on, which individually or cumulatively amount to more than RMB2 million;
- (v) the Company or LX Technology and its subsidiaries constitute a material obstacle to its qualified [REDACTED] and cannot be corrected in accordance with the relevant provisions of the laws of China or the place of [REDACTED], or the Company or LX Technology and other investors of the Series of Investments refuse to regulate it;
- (vi) the Company or LX Technology fails to provide operating reports, audited financial statements and audit reports to investors as required;
- (vii) violation of non-competition provisions;
- (viii) net operating profit or income from major business segment decreases by more than 50% compared with last fiscal year;
- (ix) auditor issues a qualified audit opinion;
- (x) the Company or LX Technology enters into liquidation or insolvency proceedings;
- (xi) the Company or LX Technology, core management seriously violated any terms as set in the subscription agreement; or
- (xii) other redemption condition as set out in the agreement.

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After any of the redemption events occur, the shareholders of the Preferred Shares/investors of the Series of Investments in the Company/LX Technology shall have the rights at any time to require and demand the Company or LX Technology to redeem all or any portion of their Preferred Shares or Series of Investments.

The price at which a Series A Preferred Shares or Series A Investment and Series D-3 Preferred Shares (related to Series D-3 Capital Transfer) or Series D-3 Capital Transfer to be redeemed shall be equal to the greater of (i), (ii), (iii) or (iv) below:

- (i) the Series A Preferred Shares or Series A Investment subscription price as defined in the shareholders' agreements or Series D-3 investment agreement and 10% IRR per annum plus any declared but unpaid dividends;
- (ii) corresponding interests based on the latest audited net book value of the Company or LX Technology before the redemption date;
- (iii) corresponding interest in the equity value for the latest round of financing before the redemption date; and
- (iv) fair market value estimated by an independent third-party valuation firm.

The price at which a Series B, Series C, Series D-1, Series D-2 Preferred Shares or Series B, Series C, Series D-1, Series D-2 Investments, and Series D-3 Preferred Shares (related to Series D-3 Capital Injection) or Series D-3 Capital Injection to be redeemed shall be equal to the greater of (i) or (ii) below:

- (i) subscription price of respective Preferred Shares or Series of Investments as defined in the shareholders' agreements Series D-3 investment agreement * (1+12% * investment date/360) plus any declared but unpaid dividends; or
- (ii) corresponding interests based on the latest audited net book value of the Company or LX Technology before the redemption date.

Liquidation Preferences

In the event of any liquidation, dissolution or winding up of the Company or LX Technology, either voluntary or involuntary, the liquidation expenses and debts of the Company or LX Technology shall be paid out of the assets in accordance with the priority prescribed by applicable laws and regulations. After the Company or LX Technology pays liquidation fees, employees' salaries, social insurance, legal compensation, taxes owed and debts of the Company or LX Technology, the remaining property of the Company or LX Technology shall be paid to shareholders of the Preferred Shares/investors of the Series of Investments. The shareholders of the Preferred Shares/investors of the Series of Investments shall receive the amount equal to subscription price together with all declared but unpaid dividends thereon.

The distribution shall be made to the shareholders/investors in the following sequence: first to Series D-3 Preferred Shares (related to Series D-3 Capital Injection) or Series D-3 Capital Injection, secondly to the Series D-2 Preferred Shares or Series D-2 Investment, thirdly to the Series D-1 Preferred Shares or Series D-1 Investment, fourthly to the Series C Preferred Shares or Series C Investment, fifthly to the Series B Preferred Shares or Series B Investment, sixthly to the Series A Preferred Shares or Series A Investments, and seventhly to the D-3 Preferred Shares (related to Series D-3 Capital Transfer) or Series D-3 Capital Transfer.

After all the Preferred Shares/Series of Investments liquidation preference amount on the Preferred Shares/Series of Investments have been paid in full as set forth above, any remaining funds or assets of the Company or LX Technology legally available for distribution to shareholders shall be distributed on a pro rata, pari passu basis among the shareholders of the Preferred Shares/investors of the Series of Investments and the remaining equity owners of the Company or LX Technology.

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Anti-dilution Right

If at any time, the Company issues new equity securities, including securities or notes convertible into or exercisable for equity interests, or conducts subsequent financing, for a per-share consideration less than the then effective conversion price applicable to any Preferred Share, then such applicable conversion price shall be reduced to a price equal to the issue price determined in accordance with the formula stated in the shareholders’ agreement (“Anti-dilution Adjustment”).

After the Anti-dilution Adjustment, the holder of the Preferred Share shall have the right to adjust the percentage of equity interest in the Company based on the original subscription price per share after the Anti-dilution Adjustment so that the percentage of equity interest held by them in the Company reaches the percentage of its investment amount purchasable by it according to the purchase price per share after the adjustment.

The redemption rights and liquidation preferences shall be automatically terminated upon the submission of filing application of a Qualified [REDACTED] or the consummation of a Qualified [REDACTED], respectively. However, in the event the earlier of (i) the application for a Qualified [REDACTED] is rejected or withdrawn; (ii) the Qualified [REDACTED] is not consummated within twelve months after the submission of [REDACTED] application; or (iii) the Qualified [REDACTED] is not consummated as contemplated on or before 31 December 2023, to the extent any rights and privileges of the holders of the Preferred Shares were terminated or forfeited in anticipation of such contemplated Qualified [REDACTED], the redemption rights and liquidation preferences shall be automatically restored.

In general, all rights with respect to the Preferred Shares of the Company will be terminated at the time of completion of a Qualified [REDACTED]. The Preferred Share will be converted into ordinary shares on one-to-one basis, subject to Anti-dilution Adjustment where applicable, by way of redesignation to ordinary shares upon the completion of a Qualified [REDACTED] and the Capitalization Issue (as defined and detailed in note 38(b)).

Presentation and Classification

The directors of the Company considered that Series of Investments in LX Technology and the Preferred Shares of the Company are designated as financial liabilities measured at FVTPL and that the changes in the fair value of the Series of Investments and the Preferred Shares of the Company attributable to the change in credit risk of these financial liabilities are minimal. Changes in fair value of the Series of Investments and the Preferred Shares of the Company not attributable to the change in credit risk of the financial liabilities are charged to profit or loss and presented as “changes in fair value of financial liabilities at FVTPL”. Warrants for Series A, Series B and Series D-1 and Series D-2 Preferred Shares of the Company are accounted for as derivatives and are recognized as fair value upon initial recognition. Prior to the exercise of the Warrants, the changes in fair value are recognized in the profit or loss.

The Group classified the financial liabilities at FVTPL as non-current liabilities on the basis that the management of the Group considered the Group has the unconditional right to defer settlement for at least twelve months after the respective reporting period as the events which will cause the Group’s obligation to redeem had not been triggered as at the end of each reporting period.

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The movements of the financial liabilities at FVTPL are set out as below:

The Group

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (unaudited)	2022 RMB'000
At the beginning of the year/period	78,264	256,841	606,533	606,533	1,117,083
Consideration from exercise of the warrant	18,000	–	–	–	–
Consideration from the Series B, C, D-1 and D-2 Investments and Series D-3 Capital Injection	150,500	160,000	65,000	65,000	–
Consideration from the Series D-3 Capital Transfer	–	–	11,634	11,634	–
Changes in fair value	10,077	189,692	433,916	278,230	(36,417)
Derecognition of the Series of Investments	–	–	–	–	(1,045,676)
Issuance of Preferred Shares	–	–	–	–	1,047,132
Issuance of Warrants	–	–	–	–	653,699
Exercise of Warrants for Preferred Shares	–	–	–	–	(655,155)
	<u>256,841</u>	<u>606,533</u>	<u>1,117,083</u>	<u>961,397</u>	<u>1,080,666</u>
At the end of the year/period	<u>256,841</u>	<u>606,533</u>	<u>1,117,083</u>	<u>961,397</u>	<u>1,080,666</u>

The Company

	Six months ended 30 June 2022 RMB'000
At the beginning of the period	–
Issuance of Preferred Shares	1,047,132
Issuance of Warrants	653,699
Exercise of Warrants for Preferred Shares	(655,155)
Changes in fair value	<u>34,990</u>
At the end of the period	<u>1,080,666</u>

The management of the Group applied back-solve and discounted cash flow method to determine the underlying equity value of the Company or LX Technology (before completion of Group Reorganization) and adopted equity allocation model based on the Black-Scholes option pricing model to determine the fair value of the financial liabilities at FVTPL.

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In addition to the underlying equity value of the Company or LX Technology (before completion of Group Reorganization) determined by back-solve and discounted cash flow method, other key valuation assumptions used in Black-Scholes option pricing model to determine the fair value of financial liabilities at FVTPL are set out as below:

	At 31 December		At 30 June	
	2019	2020	2021	2022
Time to liquidation	4 years	3 years	2 years	1.5 years
Discount rate	19.8%	17.8%	15.0%	15.0%
Risk-free interest rate	2.8%	2.8%	2.4%	2.1%
Expected volatility	50.0%	58.0%	61.0%	64.0%
Possibilities under liquidation scenario	22.5%	15.0%	10.0%	5.0%
Possibilities under redemption scenario	22.5%	20.0%	25.0%	25.0%
Possibilities under [REDACTED] scenario	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

The fair value loss of financial liabilities at FVTPL of approximately RMB10,077,000, RMB189,692,000, RMB433,916,000 and RMB278,230,000 (unaudited) were recognized during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021, respectively, and the fair value gain of financial liabilities at FVTPL of approximately RMB36,417,000 was recognized during the six months ended 30 June 2022. Of the total gains or losses for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 included in profit or loss, losses of RMB10,077,000, RMB189,692,000, RMB433,916,000 and RMB34,990,000 related to financial liabilities at FVTPL held as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively. Fair value change on financial liabilities at FVTPL are included in ‘fair value change of financial liabilities at FVTPL’ line item on the face of the consolidated statements of profit or loss and other comprehensive income.

Reconciliation of Level 3 fair value measurements

The Group

	Series of Investments RMB'000	Preferred Shares RMB'000	Warrants RMB'000	Total RMB'000
At 1 January 2019	76,331	–	1,933	78,264
Issuance of Series of Investments upon exercise of warrants	1,933	–	(1,933)	–
Issuance of Series of Investments	168,500	–	–	168,500
Changes in fair value	10,077	–	–	10,077
At 31 December 2019	256,841	–	–	256,841
Issuance of Series of Investments	160,000	–	–	160,000
Changes in fair value	189,692	–	–	189,692
At 31 December 2020	606,533	–	–	606,533
Issuance of Series of Investments	65,000	–	–	65,000
Series D-3 Capital Transfer into Series of Investments	11,634	–	–	11,634
Changes in fair value	433,916	–	–	433,916
At 31 December 2021	1,117,083	–	–	1,117,083
Derecognition of the Series of Investments	(1,045,676)	–	–	(1,045,676)
Issuance of Preferred Shares	–	391,977	–	391,977
Issuance of Warrants	–	–	653,699	653,699
Issuance of Preferred Shares upon exercise of Warrants	–	655,155	(655,155)	–
Changes in fair value	(71,407)	33,534	1,456	(36,417)
At 30 June 2022	<u>–</u>	<u>1,080,666</u>	<u>–</u>	<u>1,080,666</u>

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The Company

	Series of Investments RMB’000	Preferred Shares RMB’000	Warrants RMB’000	Total RMB’000
At 10 January 2022 (date of incorporation)	–	–	–	–
Issuance of Preferred Shares	–	391,977	–	391,977
Issuance of Warrants	–	–	653,699	653,699
Issuance of Preferred Shares upon exercise of Warrants	–	655,155	(655,155)	–
Changes in fair value	–	33,534	1,456	34,990
	<u>–</u>	<u>1,080,666</u>	<u>–</u>	<u>1,080,666</u>
At 30 June 2022	<u>–</u>	<u>1,080,666</u>	<u>–</u>	<u>1,080,666</u>

26. PAID-UP CAPITAL/SHARE CAPITAL

The Group

The paid-up capital as at 31 December 2019, 2020 and 2021 represented the paid-up registered capital of LX Technology at the respective dates, other than those from the Series of Investments as detailed in note 25.

The share capital as at 30 June 2022 represented the issued share capital of the Company.

The Company

	Number of shares	Share capital HK\$	Share capital RMB’000
Ordinary shares of HK\$0.01 each			
Authorised			
At the date of incorporation (<i>note (i)</i>)	760,000,000	7,600,000	6,208
Designated as Series A Preferred Shares on 22 March 2022 (<i>note (iii)</i>)	(15,091,329)	(150,913)	(123)
Designated as Series B Preferred Shares on 22 March 2022 (<i>note (iii)</i>)	(14,593,840)	(145,938)	(119)
Designated as Series C Preferred Shares on 22 March 2022 (<i>note (iii)</i>)	(2,084,011)	(20,840)	(17)
Designated as Series D-1 Preferred Shares on 22 March 2022 (<i>note (iii)</i>)	(12,824,688)	(128,247)	(105)
Designated as Series D-2 Preferred Shares on 22 March 2022 (<i>note (iii)</i>)	(3,606,944)	(36,070)	(29)
Designated as Series D-3 Preferred Shares on 22 March 2022 (<i>note (iii)</i>)	(1,000,000)	(10,000)	(8)
	<u>710,799,188</u>	<u>7,107,992</u>	<u>5,807</u>
At 30 June 2022	<u>710,799,188</u>	<u>7,107,992</u>	<u>5,807</u>
Issued and fully paid			
Allotment at the date of incorporation (<i>note (i)</i>)	1	–	–
Allotment on 19 January 2022 (<i>note (ii)</i>)	44,777,900	447,779	366
Allotment on 25 March 2022 (<i>note (iv)</i>)	17,733,556	177,336	144
Redesignated as Preferred shares on 28 March 2022 (<i>note (v)</i>)	(601,158)	(6,012)	(5)
	<u>61,910,299</u>	<u>619,103</u>	<u>505</u>
At 30 June 2022	<u>61,910,299</u>	<u>619,103</u>	<u>505</u>

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Notes:

- (i) Upon incorporation on 10 January 2022, the authorized share capital of the Company was HK\$7,600,000 divided into 760,000,000 shares of a par value of HK\$0.01 each. One ordinary share was issued and allotted at par to an initial independent subscriber, which was transferred to Bear Family at par on 10 January 2022.
- (ii) On 19 January 2022, a total of 44,777,900 ordinary shares were issued and allotted to Bear Family, Little Bear, Charlie Bear, Gold Bear and Hesheng BVI, which are investment holding companies held by certain equity owners of LX Technology, as part of the Group Reorganization.
- (iii) Pursuant to the written resolutions passed on 22 March 2022, the authorized share capital of the Company was amended to HK\$7,600,000 divided into (i) 710,799,188 ordinary shares; (ii) 15,091,329 Series A Preferred Shares; (iii) 14,593,840 Series B Preferred Shares; (iv) 2,084,011 Series C Preferred Shares; (v) 12,824,688 Series D-1 Preferred Shares; (vi) 3,606,944 Series D-2 Preferred Shares; and (vii) 1,000,000 Series D-3 Preferred Shares of HK\$0.01 each.
- (iv) The Company allotted and issued 6,622,445 and 11,111,111 ordinary shares, credited as fully paid at par, to LX Brothers Technology Limited, a company incorporated in the BVI with limited liability, and Beauty Bear Technology Limited, a company incorporated in the BVI with limited liability for employee incentive platforms of the Group, namely, LX Brothers Employee Incentive Plan and Beauty Bear Employee Incentive Plan, respectively.
- (v) 601,158 ordinary shares held by Hesheng BVI, were redesignated as the Series D-2 preferred shares on 28 March 2022.

27. RETIREMENT BENEFIT SCHEME

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions amounted to approximately RMB5,410,000, RMB503,000, RMB6,877,000, RMB2,173,000 (unaudited) and RMB4,701,000 for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively. No forfeited contributions have been used to reduce the level of contributions during each of the reporting period.

28. CAPITAL COMMITMENTS

	At 31 December		At 30 June	
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the Historical Financial Information	3,221	11,292	8,928	7,932
	<u>3,221</u>	<u>11,292</u>	<u>8,928</u>	<u>7,932</u>

29. PARTICULARS OF SUBSIDIARIES

As at 30 June 2022, the investment in a subsidiary mainly consists of deemed investment of RMB1,044,241,000 arising from issuance of the Company’s Preferred Shares and Warrants as part of the Group Reorganization and RMB18,999,000 arising from granting share options and restricted shares to employees of subsidiaries.

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Details of the subsidiaries held by the Company as at the date of this report are set out below.

Name of subsidiaries	Place and the date of incorporation/ establishment	Issued share capital/ paid-up capital/ registered capital	Equity interest attributable to the Group at				Date of this report	Principal activities
			31 December 2019	31 December 2020	30 June 2021	30 June 2022		
<i>Directly held:</i>								
LX BVI	BVI, 10 January 2022	US\$1	N/A	N/A	N/A	100%	[100%]	Investment holding
<i>Indirectly held:</i>								
LX HK	Hong Kong, 26 January 2022	HK\$10,000	N/A	N/A	N/A	100%	[100%]	Investment holding
LX Technology	The PRC, 3 May 2013	RMB512,031,039	100%	100%	100%	100%	[100%]	Device subscription services, IT technical subscription services and device recycling business
Shenzhen LX Technology Limited (深圳凌雄科技有限公司)	The PRC, 1 November 2004	RMB2,000,000	100%	100%	100%	100%	[100%]	Device subscription services, IT technical subscription services
Shenzhen Lingrui Internet Information Technology Co., Ltd. (深圳凌瑞網絡信息技術有限公司) (“Shenzhen Lingrui”) (note i)	The PRC, 17 April 2017	RMB10,000,000	100%	100%	100%	100%	[100%]	Device recycling business
Chengdu LX Rental Services Co., Ltd. (成都凌雄租賃服務有限公司) (“Chengdu LX”) (note iii)	The PRC, 28 March 2017	RMB1,000,000	51%	100%	100%	100%	[100%]	Device subscription services and IT technical subscription services
LX Youfu Technology (Shenzhen) Co., Ltd. (凌雄優服技術(深圳)有限公司)	The PRC, 25 May 2017	RMB1,000,000	100%	100%	100%	100%	[100%]	IT technical subscription services
LX Youqi Technology (Shenzhen) Co., Ltd. (凌雄優企科技(深圳)有限公司)	The PRC, 25 May 2017	RMB1,000,000	100%	100%	100%	100%	[100%]	IT technical subscription services
Xiamen LX Technology Co., Ltd. (廈門凌雄科技有限公司)	The PRC, 20 September 2016	RMB2,000,000	100%	100%	100%	100%	[100%]	Device subscription services and IT technical subscription services
Hangzhou LX Rental Co., Ltd. (杭州凌雄租賃服務有限公司)	The PRC, 3 April 2019	RMB1,000,000	100%	100%	100%	100%	[100%]	Device subscription services and IT technical subscription services
Shenzhen Yueqi E-Commerce Co., Ltd. (深圳市悅企電子商務有限公司) (“Shenzhen Yueqi”) (note ii)	The PRC, 24 August 2017	RMB2,000,000	100%	100%	100%	100%	[100%]	Device recycling business

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Name of subsidiaries	Place and the date of incorporation/ establishment	Issued share capital/ paid-up capital/ registered capital	Equity interest attributable to the Group at				Date of this report	Principal activities
			31 December 2019	31 December 2020	30 June 2021	30 June 2022		
Guangzhou Tianchuang E-Commerce Co., Ltd. (廣州天創電子商務有限公司) (“Guangzhou Tianchuang”) (note iv)	The PRC, 12 April 2018	RMB1,000,000	100%	100%	100%	-	-	Device recycling business
Jingmen Lingrui Recycling Resources Co., Ltd. (荊門凌瑞再生資源有限公司)	The PRC, 9 November 2017	RMB2,000,000	100%	100%	100%	100%	[100%]	Device recycling business
Zaozhuang Lingrui Recycling Resources Co., Ltd. (棗莊市凌瑞再生資源有限公司)	The PRC, 28 March 2018	RMB1,000,000	100%	100%	100%	100%	[100%]	Device recycling business
Shenzhen Lingrui Recycling Resources Co., Ltd. (深圳凌瑞再生資源有限公司)	The PRC, 15 June 2016	RMB10,000,000	100%	100%	100%	100%	[100%]	Device recycling business
LX Environmental Protection Technology (Shanghai) Co., Ltd. (凌雄環保科技(上海)有限公司) (“LX Environmental Protection”) (note iv)	The PRC, 24 January 2018	RMB10,000,000	100%	100%	100%	-	-	Device recycling business
Wuhan Lingrui Youji E-Commerce Co., Ltd. (武漢市凌瑞優機電子商務有限公司)	The PRC, 26 March 2021	RMB1,000,000	100%	100%	100%	100%	[100%]	Device recycling business

No audited statutory financial statements were available for the subsidiaries registered in the PRC during the Track Record Period as there were no requirements to issue audited statutory financial statements by the local authorities. No statutory audited financial statements for LX BVI and LX HK have been prepared since their respective dates of incorporation as LX BVI is incorporated in a jurisdiction where there are no statutory audit requirements, and LX HK is newly incorporated and the financial statements have not yet been due to issue.

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date. Other than the Series of Investment in LX Technology and the Preferred Shares of the Company, none of the other entities now comprising the Group had issued any debt securities at the end of the each of the reporting period.

Notes:

- i In January 2019, LX Technology acquired 49% equity interests held by a non-controlling shareholder in Shenzhen Lingrui at a total consideration of RMB4,892,000.
- ii In April 2019, Shenzhen Lingrui acquired 49% equity interests held by a non-controlling shareholder in Shenzhen Yueqi at a total consideration of RMB980,000.
- iii In September 2020, LX Technology acquired 49% equity interests held by a non-controlling shareholder in Chengdu LX at a total consideration of RMB2,451,000.
- iv In January 2022 and February 2022, the management of the Group has applied deregistration with respective government authorities for LX Environmental Protection and Guangzhou Tianchuang, respectively. The deregistration has been completed during the six months ended 30 June 2022, such financial impact is insignificant to the Group.

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30. AMOUNTS DUE TO SUBSIDIARIES

The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Group’s overall strategy remained unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debts, which includes lease liabilities, bank and other borrowings and financial liabilities at FVTPL, net of cash and cash equivalents and equity attributable to owners of the Company, comprising paid-up capital and reserves.

The management reviews the capital structure periodically. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through issue of new shares as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	At 31 December		At 30 June	
	2019	2020	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets				
Amortized cost	141,971	142,779	216,404	311,571
Financial liabilities				
Amortized cost	288,907	445,943	620,426	785,368
At FVTPL	256,841	606,533	1,117,083	1,080,666

The Company

	At 30 June
	2022
	RMB’000
Financial liabilities	
Amortized cost	18,863
At FVTPL	1,080,666

(b) Financial risk management objectives and policies

The Group’s and the Company’s major financial instruments include trade and lease receivables, other receivables and deposits, amounts due to subsidiaries, restricted deposits, bank balances and cash, trade payables, other payables and accruals, borrowings and financial liabilities at FVTPL. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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Market risk

Currency risk

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

The carrying amounts of the Group’s foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are mainly as follows:

The Group

	At 31 December			At 30 June
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Assets				
US dollar (“USD”)	–	–	–	70,824
Liabilities				
USD	–	–	–	56,710

The Group’s foreign currency risk is concentrated on the fluctuation of RMB against USD.

The following table details the Group’s sensitivity to a 5% increase and decrease in RMB against USD. 5% represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in post-tax loss for the year/period where RMB weakens 5% against USD. For a 5% strengthening of RMB against USD, there would be an opposite impact on the post-tax loss for the year/period.

The Group

	At 31 December			At 30 June
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Impact on post-tax profit or loss	–	–	–	529

The directors of the Company considered the sensitivity analysis is unrepresentative of the foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the Track Record Period.

The Company does not expose to significant currency risk as at 30 June 2022.

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.

The Company does not expose to significant interest rate risk as at 30 June 2022.

Other price risk

The Group and the Company are exposed to other price risk arising from the Preferred Shares and the Series of Investments which was classified as financial liabilities at FVTPL.

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Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date for financial liabilities at FVTPL.

The Group

If the equity value of LX Technology as at 31 December 2019, 2020 and 2021 and the equity value of the Company as at 30 June 2022 had been changed based on the 5% higher/lower:

- the loss of the Group for the year ended 31 December 2019 would increase by approximately RMB10,582,000 and decrease by approximately RMB10,639,000;
- the loss of the Group for the year ended 31 December 2020 would increase by approximately RMB26,958,000 and decrease by approximately RMB27,007,000;
- the loss of the the Group for the year ended 31 December 2021 would increase by approximately RMB52,359,000 and decrease by approximately RMB52,308,000; and
- the loss of the Group for the six months ended 30 June 2022 would increase by approximately RMB50,562,000 and decrease by approximately RMB50,466,000.

The Company

If the equity value of the Company had been changed based on the 5% higher/lower, the loss of the Company for the six months ended 30 June 2022 would increase by approximately RMB50,562,000 and decrease by approximately RMB50,466,000.

Credit risk and impairment assessment

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 has no material concentration of credit risk at 31 December 2019, 2020 and 2021 and 30 June 2022.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group’s credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarized as below.

Trade and lease receivables

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer’s credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that the Group’s credit risk is significantly reduced. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

In addition, the Group performs impairment assessment under ECL model on trade and lease receivables with credit-impaired individually and collectively using provision matrix on those remaining trade and lease receivables based on shared credit risk characteristics by reference to the aging of outstanding balances. Impairment of approximately RMB2,099,000, RMB2,071,000, RMB1,970,000, RMB1,122,000 (unaudited) and RMB2,921,000 are recognized during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively. Details of the quantitative disclosures are set out below in this note.

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Restricted deposits/bank balances

Credit risk on restricted deposits/bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL restricted deposits/bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on restricted deposits/bank balances is considered to be insignificant and therefore no loss allowance was recognized.

Other receivables and deposits

For other receivables and deposits, the management makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. Based on the average loss rates, the 12m ECL on other receivables and deposits is considered to be insignificant and therefore no loss allowance was recognized.

The Group’s internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade and lease receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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The tables below detail the credit risk exposures of the Group’s financial assets, which are subject to ECL assessment:

The Group

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	At 31 December		At 30 June	
					2019	2020	2021	2022
					Gross carrying amount RMB’000	Gross carrying amount RMB’000	Gross carrying amount RMB’000	Gross carrying amount RMB’000
Financial assets at amortized cost								
Trade and lease receivables	18	N/A	Low risk (note)	Lifetime ECL – not credit-impaired	27,037	20,096	31,920	41,365
			Watch list (note)	Lifetime ECL – not credit-impaired	21,913	16,657	20,409	18,205
			Doubtful (note)	Lifetime ECL not credit-impaired	1,020	4,029	6,756	7,302
					49,970	40,782	59,085	66,872
Other receivables and deposits	19	N/A	Low risk	12m ECL	7,130	5,967	14,755	13,483
Restricted deposits	20	AA	N/A	12m ECL	11,572	19,327	29,656	33,773
Bank balances	20	AA+	N/A	12m ECL	75,911	80,378	118,553	206,009
					144,583	146,454	222,049	320,137

Note: For trade and lease receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL of the trade and lease receivables using provision matrix grouped by aging of the receivables. There are no credit-impaired debtors that are assessed individually as at 31 December 2019, 2020 and 2021 and 30 June 2022.

Provision matrix – debtors’ aging

As part of the Group’s credit risk management, the Group uses debtors’ aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers’ abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade and lease receivables which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired).

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Gross carrying amount

	2019		At 31 December 2020		2021		At 30 June 2022	
	Average loss rate	Trade and lease receivables <i>RMB'000</i>	Average loss rate	Trade and lease receivables <i>RMB'000</i>	Average loss rate	Trade and lease receivables <i>RMB'000</i>	Average loss rate	Trade and lease receivables <i>RMB'000</i>
	Current(not past due)	0.9%	27,037	0.7%	20,096	0.5%	31,920	0.5%
1 – 30 days past due	0.9%	1,485	1.5%	2,813	1.4%	1,654	3.8%	4,982
31 – 60 days past due	5.3%	6,692	5.2%	3,780	4.7%	5,597	3.9%	1,926
61 – 90 days past due	6.6%	1,932	5.6%	3,706	5.2%	3,219	6.1%	3,139
91 - 365 days past due	11.2%	11,804	14.6%	6,358	14.0%	9,939	33.4%	8,158
More than 365 days past due	53.7%	1,020	53.7%	4,029	53.7%	6,756	71.2%	7,302
		<u>49,970</u>		<u>40,782</u>		<u>59,085</u>		<u>66,872</u>

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The following table shows the movement in lifetime ECL that has been recognized for trade and lease receivables under the simplified approach.

	Lifetime ECL Not credit- impaired <i>RMB'000</i>	Lifetime ECL credit- impaired <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2019	2,579	–	2,579
Changes due to financial instruments recognized as at 1 January 2019:			
– Transfer to credit-impaired	(212)	212	–
– Impairment losses reversed/recognized, net of allowance/reversal	(1,819)	264	(1,555)
– Written-offs	–	(476)	(476)
New financial assets originated:			
– Impairment losses recognized	2,064	1,590	3,654
– Written-offs	–	(1,590)	(1,590)
As at 31 December 2019	2,612	–	2,612
Changes due to financial instruments recognized as at 1 January 2020:			
– Transfer to credit-impaired	(548)	548	–
– Impairment losses recognized, net of reversal	99	42	141
– Written-offs	–	(590)	(590)
New financial assets originated:			
– Impairment losses recognized	1,512	418	1,930
– Written-offs	–	(418)	(418)

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	Lifetime ECL Not credit- impaired RMB’000	Lifetime ECL credit- impaired RMB’000	Total RMB’000
As at 31 December 2020	3,675	–	3,675
Changes due to financial instruments recognized as at 1 January 2021:			
– Impairment losses reversed, net of allowance	(47)	–	(47)
New financial assets originated:			
– Impairment losses recognized	2,017	–	2,017
As at 31 December 2021	5,645	–	5,645
Changes due to financial instruments recognized as at 1 January 2022:			
– Impairment losses reversed, net of allowance	1,874	–	1,874
New financial assets originated:			
– Impairment losses recognized	1,047	–	1,047
As at 30 June 2022	<u>8,566</u>	<u>–</u>	<u>8,566</u>
As at 1 January 2021	3,675	–	3,675
Changes due to financial instruments recognized as at 1 January 2021:			
– Impairment losses recognized, net of reversal	444	–	444
New financial assets originated:			
– Impairment losses recognized	678	–	678
As at 30 June 2021 (unaudited)	<u>4,797</u>	<u>–</u>	<u>4,797</u>

The Group writes off a trade and lease receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, has entered into bankruptcy proceedings or the Group has started the legal proceedings against the customers. None of the trade and lease receivables that have been written off is subject to enforcement activities.

The Company does not expose to significant credit risk as at 30 June 2022.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the Group’s and the Company’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 31 December 2019, 2020 and 2021 and 30 June 2022, the Group has available unutilized bank loan facilities of approximately RMB65,510,000, RMB103,821,000, RMB172,108,000 and RMB97,076,000, respectively and the Company has no bank loan facilities as at 30 June 2022.

The following table details the Group’s and the Company’s remaining contractual maturity for its financial liabilities which has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

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The Group

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 year to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2019							
Trade payables	–	105,668	–	–	–	105,668	105,668
Other payables and accruals	–	6,896	–	–	–	6,896	6,896
Borrowings	8.4%	137,009	50,232	5,072	–	192,313	176,343
Lease liabilities	6.4%	9,028	7,728	16,332	2,340	35,428	30,713
Financial liabilities at FVTPL	12.1%	–	–	380,835	–	380,835	256,841
		<u>258,601</u>	<u>57,960</u>	<u>402,239</u>	<u>2,340</u>	<u>721,140</u>	<u>576,461</u>

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 year to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2020							
Trade payables	–	135,369	–	–	–	135,369	135,369
Other payables and accruals	–	7,010	–	–	–	7,010	7,010
Borrowings	8.8%	234,474	119,285	–	–	353,759	303,564
Lease liabilities	6.4%	7,784	8,673	10,273	447	27,177	24,094
Financial liabilities at FVTPL	12.1%	–	–	690,735	–	690,735	606,533
		<u>384,637</u>	<u>127,958</u>	<u>701,008</u>	<u>447</u>	<u>1,214,050</u>	<u>1,076,570</u>

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 year to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2021							
Trade payables	–	68,293	–	–	–	68,293	68,293
Other payables and accruals	–	10,549	–	–	–	10,549	10,549
Borrowings	8.0%	431,043	148,674	9,989	–	589,706	541,584
Lease liabilities	6.4%	11,538	5,519	6,004	–	23,061	21,163
Financial liabilities at FVTPL	11.8%	–	–	712,040	–	712,040	1,117,083
		<u>521,423</u>	<u>154,193</u>	<u>728,033</u>	<u>–</u>	<u>1,403,649</u>	<u>1,758,672</u>

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	Weighted average interest rate	On demand or less than 1 year RMB’000	1 year to 2 years RMB’000	2 to 5 years RMB’000	Over 5 years RMB’000	Total undiscounted cash flows RMB’000	Total carrying amount RMB’000
At 30 June 2022							
Trade payables	-	120,682	-	-	-	120,682	120,682
Other payables and accruals	-	11,175	-	-	-	11,175	11,175
Borrowings	6.2%	523,232	154,293	14,438	-	691,963	653,511
Lease liabilities	6.4%	9,753	5,048	4,501	-	19,302	17,858
Financial liabilities at FVTPL	11.8%	-	712,040	-	-	712,040	1,080,666
		<u>664,842</u>	<u>871,381</u>	<u>18,939</u>	<u>-</u>	<u>1,555,162</u>	<u>1,883,892</u>

The Company

	Weighted average interest rate	On demand or less than 1 year RMB’000	1 year to 2 years RMB’000	2 to 5 years RMB’000	Over 5 years RMB’000	Total undiscounted cash flows RMB’000	Total carrying amount RMB’000
At 30 June 2022							
Other payables and accruals	-	4,328	-	-	-	4,328	4,328
Amounts due to subsidiaries	-	14,535	-	-	-	14,535	14,535
Financial liabilities at FVTPL	11.8%	-	712,040	-	-	712,040	1,080,666
		<u>18,863</u>	<u>712,040</u>	<u>-</u>	<u>-</u>	<u>730,903</u>	<u>1,099,529</u>

33. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group’s and the Company’s financial liabilities at FVTPL are measured at fair value for financial reporting purposes. The directors of the Company are responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value, the Group and the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group and the Company determine the appropriate valuation techniques and inputs for fair value measurements and works closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model.

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The Group

Financial liabilities	Fair values as at				Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
	31 December			30 June				
	2019	2020	2021	2022				
	RMB'000	RMB'000	RMB'000	RMB'000				
Financial liabilities at FVTPL	256,841	606,533	1,117,083	1,080,666	Level 3	Discounted cash flow, back-solve and Black-Scholes option pricing model – the key inputs are: Time to liquidation, discount rate, risk-free interest rate, expected volatility, possibilities under liquidation scenario redemption scenario, and [REDACTED] scenario	Expected volatility value	An increase in expected volatility value would result in a slightly change in fair value, and vice versa

A 5% increase or decrease in the expected volatility value, while all other variables keep constant, would decrease the carrying amount of financial liabilities at FVTPL of the Group as at 31 December 2019 and 2020 by approximately RMB1,149,000 and RMB1,130,000, respectively, while increase the carrying amount of financial liabilities at FVTPL of the Group as at 31 December 2021 and 30 June 2022 by approximately RMB683,000 and RMB1,112,000, respectively, or increase the carrying amount of financial liabilities at FVTPL of the Group as at 31 December 2019 and 2020 by approximately RMB1,133,000 and RMB1,062,000 respectively, while decrease the carrying amount of financial liabilities at FVTPL of the Group as at 31 December 2021 and 30 June 2022 by approximately RMB847,000 and RMB1,257,000, respectively.

The Company

Financial liabilities	Fair values as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
	30 June	2022				
	RMB'000					
Financial liabilities at FVTPL	1,080,666		Level 3	Discounted cash flow, back-solve and Black-Scholes option pricing model – the key inputs are: Time to liquidation, discount rate, risk-free interest rate, expected volatility, possibilities under liquidation scenario redemption scenario, and [REDACTED] scenario	Expected volatility value	An increase in expected volatility value would result in a slightly change in fair value, and vice versa

A 5% increase or decrease in the expected volatility value, while all other variables keep constant, would increase the carrying amount of financial liabilities at FVTPL of the Company as at 30 June 2022 by approximately RMB1,112,000, or decrease the carrying amount of financial liabilities at FVTPL of the Company as at 30 June 2022 by approximately RMB1,257,000.

There is no transfer between different levels of the fair value hierarchy during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022.

Details of reconciliation of Level 3 fair value measurement of the financial liabilities at FVTPL are set out in note 25.

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Fair value of the Group’s and the Company’s financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures required)

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information approximate their fair values.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s consolidated statements of cash flows as cash flows from financing activities.

	Borrowings <i>RMB’000</i> <i>(note 24(a))</i>	Lease liabilities <i>RMB’000</i> <i>(note 24(b))</i>	Financial liabilities at FVTPL <i>RMB’000</i> <i>(note 25)</i>	Accrued <i>[REDACTED]</i> <i>RMB’000</i> <i>(note 22)</i>	Payables for capital reduction of LX Technology <i>RMB’000</i> <i>(note 2)</i>	Total <i>RMB’000</i>
At 1 January 2019	60,900	13,313*	78,264	[REDACTED]	–	152,477
Financing cash flows	75,057	(6,900)	168,500	[REDACTED]	–	234,935
New leases or lease modification	–	22,497	–	[REDACTED]	–	22,497
Purchase of plant and equipment <i>(note i)</i>	30,191	–	–	[REDACTED]	–	30,191
Fair value adjustments [REDACTED] for financial liabilities at FVTPL	–	–	10,077	[REDACTED]	–	10,077
Finance costs	10,195	1,803	–	[REDACTED]	–	11,998
At 31 December 2019	176,343	30,713	256,841	[REDACTED]	–	463,897
Financing cash flows	65,893	(8,927)	160,000	[REDACTED]	–	216,966
New leases or lease modification	–	595	–	[REDACTED]	–	595
Purchase of plant and equipment <i>(note i)</i>	43,935	–	–	[REDACTED]	–	43,935
Fair value adjustments	–	–	189,692	[REDACTED]	–	189,692
Finance costs	17,393	1,713	–	[REDACTED]	–	19,106
At 31 December 2020	303,564	24,094	606,533	[REDACTED]	–	934,191
Financing cash flows	156,711	(9,959)	65,000	[REDACTED]	–	210,369
New leases or lease modification	–	5,490	–	[REDACTED]	–	5,490
Purchase of plant and equipment <i>(note i)</i>	46,546	–	–	[REDACTED]	–	46,546
Fair value adjustments	–	–	433,916	[REDACTED]	–	433,916
Effect of Series D-3 Capital Transfer	–	–	11,634	[REDACTED]	–	11,634
Deferred [REDACTED]	–	–	–	[REDACTED]	–	[REDACTED]
Finance costs	34,763	1,538	–	[REDACTED]	–	36,301
At 31 December 2021	541,584	21,163	1,117,083	[REDACTED]	–	1,680,774
Financing cash flows	71,357	(5,389)	473,134	[REDACTED]	(473,134)	62,789
New leases or lease modification	–	1,459	–	[REDACTED]	–	1,459
Purchase of plant and equipment <i>(note i)</i>	16,013	–	–	[REDACTED]	–	16,013
Fair value adjustments	–	–	(36,417)	[REDACTED]	–	(36,417)
Deferred [REDACTED]	–	–	–	[REDACTED]	–	[REDACTED]
Derecognition of the Series of Investments	–	–	(1,045,676)	[REDACTED]	473,134	(572,542)
Issuance of Preferred Shares <i>(note ii)</i>	–	–	573,998	[REDACTED]	–	573,998
Issuance of Warrants	–	–	653,699	[REDACTED]	–	653,699

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	Borrowings RMB’000 (note 24(a))	Lease liabilities RMB’000 (note 24(b))	Financial liabilities at FVTPL RMB’000 (note 25)	Accrued [REDACTED] RMB’000 (note 22)	Payables for capital reduction of LX Technology RMB’000 (note 2)	Total RMB’000
Exercise of Warrants for Preferred Shares	–	–	(655,155)	[REDACTED]	–	(655,155)
Finance costs	21,370	625	–	[REDACTED]	–	21,995
Exchange adjustments	3,187	–	–	[REDACTED]	–	3,187
	<u>653,511</u>	<u>17,858</u>	<u>1,080,666</u>	<u>[REDACTED]</u>	<u>–</u>	<u>1,752,848</u>
At 30 June 2022	<u>653,511</u>	<u>17,858</u>	<u>1,080,666</u>	<u>[REDACTED]</u>	<u>–</u>	<u>1,752,848</u>
At 1 January 2021	303,564	24,094	606,533	[REDACTED]	–	934,191
Financing cash flows	96,511	(4,759)	60,000	[REDACTED]	–	151,752
New leases or lease modification	–	5,074	–	[REDACTED]	–	5,074
Purchase of plant and equipment (note i)	18,198	–	–	[REDACTED]	–	18,198
Fair value adjustments	–	–	278,230	[REDACTED]	–	278,230
Effect of Series D-3 Capital Transfer	–	–	11,634	[REDACTED]	–	11,634
Consideration receivable from Series D-3 Capital Injection	–	–	5,000	[REDACTED]	–	5,000
Finance costs	13,766	814	–	[REDACTED]	–	14,580
	<u>432,039</u>	<u>25,223</u>	<u>961,397</u>	<u>[REDACTED]</u>	<u>–</u>	<u>1,418,659</u>
At 30 June 2021 (unaudited)	<u>432,039</u>	<u>25,223</u>	<u>961,397</u>	<u>[REDACTED]</u>	<u>–</u>	<u>1,418,659</u>

* After the adjustments upon application of IFRS 16 as disclosed in note 3, the lease liabilities in relation to leased properties amounted to RMB13,313,000 are recognized.

Note i: To better manage the Group’s capital structure and financing needs, the Group enters into financing arrangements in relation to its equipment with financing lease companies. Borrowings raised in respect of such arrangements during the Track Record Period are included in the other borrowings of the Group. The proceeds which are paid by the financing lease companies to the equipment suppliers directly for the Group are non-cash transactions as disclosed in the table above.

Note ii: The amount represented the difference between the consideration received of RMB473,134,000 and the fair value of Preferred Shares on the date of issue.

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35. RELATED PARTY TRANSACTIONS

Other than those transactions and balances disclosed in notes 18, 19, 21, 22 and 24 in the Historical Financial Information, the Group has following transactions with related parties:

Relationship	Nature of transactions	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					<i>(unaudited)</i>	
Entities which a director of the Company or ex-director of LX Technology has significant influence	Revenue from related parties					
	– Device subscription services	360	2,179	4,081	1,838	2,318
	– IT technical subscription services	31	160	113	18	125
	– Device recycling income	123	–	11	3	1
	Purchase of IT equipment from related parties	73,798	52,708	41,513	25,552	14,182
	Services received from related parties					
	– Marketing and promotion services	5,034	8,808	9,645	5,871	3,859
	– Maintenance services	7,297	7,155	14,354	5,512	5,383
	– Logistics services	–	26	319	165	118
	Interest expenses on other borrowings	883	–	1,803	570	919
		<u>883</u>	<u>–</u>	<u>1,803</u>	<u>570</u>	<u>919</u>

Compensation of key management personnel

The remuneration of directors of the Company, chief executive officer and other members of key management of the Group during the Track Record Period was as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Short-term employee benefits	2,120	3,160	3,654	1,918	2,134
Post-employment benefits	67	7	100	48	55
Equity-settled share-based payments expense	–	–	–	–	6,990
	<u>2,187</u>	<u>3,167</u>	<u>3,754</u>	<u>1,966</u>	<u>9,179</u>

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36. RESERVES OF THE COMPANY

Movement in the Company’s reserves

Below is a table showing the movements of the reserves of the Company:

	Accumulated losses <i>RMB’000</i>	Other reserves <i>RMB’000</i> <i>(note)</i>	Share-based payments reserve <i>RMB’000</i>	Total <i>RMB’000</i>
At the date of incorporation	–	–	–	–
Loss and total comprehensive expenses for the period	(54,469)	–	–	(54,469)
Allotment on 19 January 2022 <i>(note 26(ii))</i>	–	(366)	–	(366)
Allotment on 25 March 2022 <i>(note 26(iv))</i>	–	(144)	–	(144)
Redesignated as Preferred shares on 28 March 2022 <i>(note 26(v))</i>	–	5	–	5
Recognition of equity-settled share-based payments expense	–	–	23,555	23,555
At 30 June 2022	<u>(54,469)</u>	<u>(505)</u>	<u>23,555</u>	<u>(31,419)</u>

Note: As at 30 June 2022, other reserves mainly represent the ordinary shares allotted and issued to i) certain equity owners of LX Technology as part of the Group Reorganization mentioned in note 2 and ii) employee incentive platforms of the Group.

37. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

LX Brothers Employee Incentive Plan

LX Brothers Employee Incentive Plan is adopted by the Company pursuant to the written resolutions of the board of directors of the Company passed on 23 March 2022, which is a share incentive scheme and is established to recognise the contribution of the employees of the Group towards its growth and success. The LX Brothers Employee Incentive Plan will provide the eligible participants with an opportunity to have a personal stake in the Group with a view to achieving the following objectives:

- (i) encourage the eligible participants to contribute to the Group for the long-term benefits of the Company; and
- (ii) provide the Group with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the eligible participants.

Those eligible to participate in the LX Brothers Employee Incentive Plan include any director, employee or senior management employee, including without limitation the chief executive officer, chief financial officer, chief operation officer or other officer or persons whom a committee of the board considers, in its absolute discretion, have contributed or will contribute to the Group.

Subject to the terms of the LX Brothers Employee Incentive Plan, a grantee is entitled to exercise, at any time prior to the expiry of 10 years from the date on which the offer of options is made, up to one-fourth of his/her granted and accepted options commencing from each of the first, second, third and fourth anniversaries of the date on which the offer of options is made; or up to three-fourths and one-fourth commencing from the first and second anniversaries of the date on which the offer of options is made, respectively; or up to half of his/her granted and accepted options from each of the first and second

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anniversaries of the date on which the offer of options is made under the LX Brothers Employee Incentive Plan during the period which the committee of the Board notifies to each grantee, provided that the grantee remains to be an eligible participant entitled to exercise his or her option and the satisfaction of annual comprehensive assessment of the grantee.

The exercise price per share in respect of any particular option granted under the LX Brothers Employee Incentive Plan shall be determined by the committee of the board and included in the letter to the grantee containing the offer of options, which could be a fixed or variable figure with reference to the fair value per share.

The total number of shares in respect of which options may be transferred under the LX Brothers Employee Incentive Plan is such number of shares, representing no more than 6.0% of the issued share capital of the Company upon 1) Capitalization Issue (as defined and detailed in note 38(b)) and 2) the completion of the [REDACTED] and the [REDACTED] (“[REDACTED]”), as at the date of adoption of LX Brothers Employee Incentive Plan. As at the date of this report, the total number of shares available for issue under the LX Brothers Employee Incentive Plan was 6,622,445 shares, which is to be adjusted to [REDACTED] shares upon Capitalization Issue and representing approximately [REDACTED]% of the issued share capital of the Company upon 1) Capitalization Issue and 2) the completion of [REDACTED].

In recognition of the contributions made by the employees of the Group towards its growth and success, on 1 April 2022, a total of 104 eligible participants were offered options to subscribe for an aggregate of 6,622,445 shares (to be adjusted to [REDACTED] shares upon Capitalization Issue) under LX Brothers Employee Incentive Plan.

The estimated fair value of the options granted was HK\$161,103,000 (equivalent to RMB130,840,000). During the six months ended 30 June 2022, the Group recognized the share-based payments expense of RMB19,394,000 in relation to the LX Brothers Employee Incentive Plan.

The following table discloses movements of the Company’s share options held by directors and employees during the six months ended 30 June 2022 under LX Brothers Employee Incentive Plan since approval of LX Brothers Employee Incentive Plan:

	Expiry date	Exercise price HK\$	Number of share options			Outstanding at 30 June 2022
			At 23 March 2022	Granted during the period	Forfeited during the period	
Directors (note i)	31 March 2032	0.01	–	[REDACTED]	[REDACTED]	[REDACTED]
Directors (note ii)	31 March 2032	0.01	–	[REDACTED]	[REDACTED]	[REDACTED]
Senior management (note ii)	31 March 2032	0.01	–	[REDACTED]	[REDACTED]	[REDACTED]
Senior management (note iii)	31 March 2032	0.01	–	[REDACTED]	[REDACTED]	[REDACTED]
Employees (note i)	31 March 2032	0.01	–	[REDACTED]	[REDACTED]	[REDACTED]
Employees (note ii)	31 March 2032	0.01	–	[REDACTED]	[REDACTED]	[REDACTED]
			–	[REDACTED]	[REDACTED]	[REDACTED]
Exercisable at the end of the reporting period						–

Notes:

- (i) Grantees could vest [REDACTED]% of his or her granted options on [REDACTED] upon satisfaction of annual comprehensive assessment.

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- (ii) Grantees could vest [REDACTED]% of his or her granted options on [REDACTED] upon satisfaction of annual comprehensive assessment.
- (iii) Grantee could vest [REDACTED]% of his granted options on [REDACTED] and the remaining [REDACTED]% of his granted options on [REDACTED] upon satisfaction of annual comprehensive assessment.

Save for the above, there are no other vesting conditions for the shares options granted under the LX Brothers Employee Incentive Plan.

Discounted cash flow method was used to determine the underlying equity value of the Company at grant date and the estimated fair value of the share options granted is measured based on the binomial option pricing model. The inputs into the model were as follows:

At 1 April 2022

Share price on date of grant	HK\$24.3 per share
Exercise price	HK\$0.01 per share
Risk-free rate	2.2%
Expected volatility	56.2%
Expected dividend yield	0%

Expected volatility was determined by using the volatility of the comparable companies’ share price over the expected life of the option. Risk-free rate was determined with reference to Hong Kong Government Exchange Fund Notes with similar tenor. Dividend yield was determined with reference to the historical dividend payout of the Group.

The binomial option pricing model has been used to estimate the fair value of the share options by the qualified valuer. The variables and assumptions used in computing the fair value of the share options are based on the directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions.

The number of the share options granted expected to vest is based on the directors’ best estimate on the expected percentage of the 104 eligible employees that will remain in employment with the Group at the end of the vesting period.

Beauty Bear Employee Incentive Plan

Beauty Bear Employee Incentive Plan is adopted by the Company pursuant to the written resolutions of the board of directors of the Company passed on 1 April 2022, which is established to recognise and acknowledge the contributions that the eligible participants had or may have made to the Group. The Beauty Bear Employee Incentive Plan will provide the eligible participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) encourage the eligible participants to contribute to the Group for the long-term benefits of the Company; and
- (ii) provide the Group with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the eligible participants.

Those eligible to participate in the Beauty Bear Employee Incentive Plan include any director, employee or senior management employee, including without limitation the chief executive officer, chief financial officer, chief operation officer or other officer or persons whom a committee of the board considers, in its absolute discretion, have contributed or will contribute to the Group.

Subject to the terms of the Beauty Bear Employee Incentive Plan, a grantee is entitled to exercise, at any time prior to the expiry of 10 years from the date on which the offer of options is made, up to one-fourth of his/her granted and accepted options under the Beauty Bear Employee Incentive Plan during the period which the committee of the board notifies to each grantee, commencing from each of the first, second, third and fourth anniversaries of the date on which the offer of options is made, provided that the grantee remains to be an eligible participant entitled to exercise his or her option and the satisfaction of annual comprehensive assessment of the grantee.

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The exercise price per share in respect of any particular option granted under the Beauty Bear Employee Incentive Plan shall be determined by the committee of the board and included in the letter to the grantee containing the offer of options, which could be a fixed or variable figure with reference to the fair value per share.

The maximum number of shares in respect of which options may be granted under the Beauty Bear Share Option Scheme of the Company must not in aggregate exceed 10% of the issued share capital of the Company upon 1) Capitalization Issue and 2) the completion of the [REDACTED], at the date of adoption of Beauty Bear Share Option Scheme, being [REDACTED] shares. No options were granted under the Beauty Bear Employee Incentive Plan during the six months ended 30 June 2022.

Restricted Share Award Scheme

Restricted Share Award Scheme is adopted by the Company pursuant to a resolution (“Resolution”) of the board of directors of the Company passed on 1 April 2022, which is to encourage certain directors of the Company, employees to contribute to the Group for the long-term benefits of the Company and the shareholders as a whole and provide the Group with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to any director of the Company, employee or any other person that, in the opinion of the board committee in its sole and absolute discretion, will contribute materially to the successful operation of the Group.

The Restricted Share Award Scheme shall be valid and effective for the period of 10 years commencing on the adoption date of the Restricted Share Award Scheme, after which period no further awards will be granted, but the it shall not affect the subsisting rights of any selected participants.

The exercise price per share in respect of any shares granted under the Restricted Share Award Scheme shall be more than, equal to, or less than fair market value of a share and may be zero, subject to such minimum consideration as may be required by applicable law.

The total number of shares awarded under the Restricted Share Award Scheme to each participant in any 12-month period up to the date of award exceed 1% of the issued share capital of the Company upon 1) Capitalization Issue and 2) the completion of the [REDACTED], at the date of award shall be subject to the issue of a circular by the Company to shareholders and the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules (as defined in the Document) from time to time with such participant and his/her close associates (as defined in the Listing Rules) (or his/her associates (as defined in the Listing Rules) if the participant is a connected person (as defined in the Listing Rules)) abstaining from voting after the Resolution.

No shares shall be granted pursuant to the Restricted Share Award Scheme if as a result of such grant (assumed accepted), the aggregate number of shares underlying all grants made pursuant to the Restricted Share Award Scheme (excluding the shares that have lapsed or been canceled in accordance with the rules of the Restricted Share Award Scheme) will exceed 10% of the number of shares in issue from time to time.

On 1 April 2022, 2,222,222 award shares (to be adjusted to [REDACTED] shares upon Capitalization Issue) were granted to an employee of LX Technology. Save as disclosed above, no other award shares had been granted or agreed to be granted under the Restricted Share Award Scheme during the six month ended 30 June 2022. The shares granted shall be vested in four equal lots on each of 1 April from 2023 to 2026, there are no other vesting conditions for the shares granted under the Restricted Share Award Scheme.

The directors of the Company and the qualified valuer used discounted cash flow method to determine the underlying equity value of the Company and performed equity allocation based on Black-Scholes option pricing model to arrive the fair value of the shares at grant date. The aggregate fair value of the shares held for the Restricted Share Award Scheme granted on 1 April 2022 was HK\$36,370,000 (equivalent to RMB29,538,000) and the Group recognized the share-based payment expenses of RMB4,161,000 during the six months ended 30 June 2022.

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38. EVENTS AFTER THE REPORTING PERIOD

[On [●], written resolutions of all shareholders of the Company were passed to approve the below matters set out in the paragraph headed “Further information about our Group – 5. Written resolutions of our Shareholders passed on [●], 2022” in Appendix IV to the Document. It was resolved, among other things:

- (a) the authorized share capital of the Company was increased from HK\$7,600,000 divided into (i) 710,799,188 ordinary shares; (ii) 15,091,329 Series A Preferred Shares; (iii) 14,593,840 Series B Preferred Shares; (iv) 2,084,011 Series C Preferred Shares; (v) 12,824,688 Series D-1 Preferred Shares; (vi) 3,606,944 Series D-2 Preferred Shares; and (vii) 1,000,000 Series D-3 Preferred Shares to HK\$10,000,000 divided into (i) 950,799,188 shares; (ii) 15,091,329 Series A Preferred Shares; (iii) 14,593,840 Series B Preferred Shares; (iv) 2,084,011 Series C Preferred Shares; (v) 12,824,688 Series D-1 Preferred Shares; (vi) 3,606,944 Series D-2 Preferred Shares; and (vii) 1,000,000 Series D-3 Preferred Shares, by the creation of an additional 240,000,000 ordinary shares ranking pari passu in all aspects with the existing shares with immediate effect;
- (b) conditional on the share premium account of the Company being credited as a result of the [REDACTED], the directors of the Company were authorized to capitalize HK\$[REDACTED] standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par [REDACTED] shares for allotment (“Capitalization Issue”) and issue to holders of shares whose names appear on the register of members of the Company on the date of passing this resolution in proportion (as near as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in the Company.]

39. SUBSEQUENT FINANCIAL STATEMENTS

[No audited financial statements of the Group, the Company or any of its subsidiaries, have been prepared in respect of any period subsequent to 30 June 2022.]

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Notes:

1. The audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at 30 June 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] recognised in profit or loss prior to 30 June 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 17 October 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 at 30 June 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 30 June 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 30 June 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 17 October 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 at 30 June 2022 to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 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 30 June 2022 would have been redesignated as ordinary shares and the carrying amount of the Company’s preferred shares on 30 June 2022 of [RMB[REDACTED]], 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 at 30 June 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 30 June 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 at 30 June 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.

[REDACTED]

[REDACTED]

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[REDACTED]

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- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to the Director, his close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The remuneration to be paid to the Directors, if any, shall be such remuneration as the Directors shall determine. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any class of shares or debentures of the Company, or otherwise in connection with the business of the Company or the discharge of their duties as a Director, or to receive a fixed allowance in respect thereof as may be determined by the Directors, or a combination partly of one such method and partly the other.

The Directors may approve additional remuneration to any Director for any services which in the opinion of the Directors go beyond that Director's ordinary routine work as a Director. Any fees paid to a Director who is also counsel, attorney or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to their remuneration as a Director.

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(h) Retirement, appointment and removal

The Company may by ordinary resolution appoint any person to be a Director, either to fill a vacancy or as an additional Director.

The Company may by ordinary resolution remove any Director (including a managing or other executive Director) before the expiration of such Director's term of office, notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director, and may by ordinary resolution elect another person in their stead. Nothing shall be taken as depriving a Director so removed of compensation or damages payable to such Director in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director.

The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles of Association as the maximum number of Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after such Director's appointment and shall then be eligible for re-election at that meeting.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated if:

- (i) the Director gives notice in writing to the Company that he resigns the office of Director;
- (ii) the Director is absent (for the avoidance of doubt, without being represented by proxy or an alternate Director appointed by him) for a continuous period of 12 months without special leave of absence from the Directors, and the Directors pass a resolution that he has by reason of such absence vacated office;
- (iii) the Director dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (iv) the Director is found to be or becomes of unsound mind; or
- (v) the Director is removed from office by notice in writing served upon such Director signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors then in office (including such Director).

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

(i) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

2.2 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.3 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class for the time being issued (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied only with the consent in writing of the holders of not less than three-fourths of the voting rights of the issued shares of that class, or with the approval of a resolution passed by a majority of not less than three-fourths of the votes cast at a separate meeting of the holders of the shares of that class. To any such meeting all the provisions of the Articles of Association relating to general meetings shall apply *mutatis mutandis*, except that the necessary quorum shall be one or more persons holding or representing by proxy or duly authorised representative at least one-third of the voting rights of the issued shares of that class.

The rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.4 Alteration of capital

The Company may by ordinary resolution:

- (a) increase its share capital by such sum as the ordinary resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;
- (b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchasers thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company’s benefit;
- (c) by subdivision of its existing shares or any of them divide the whole or any part of its share capital into shares of smaller amount than is fixed by the Memorandum of Association or into shares without par value; and
- (d) cancel any shares that at the date of the passing of the ordinary resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

The Company may by special resolution reduce its share capital or any capital redemption reserve fund, subject to the provisions of the Companies Act.

2.5 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the same meaning as in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been

duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.6 *Voting rights*

Subject to any rights or restrictions attached to any shares, at any general meeting (a) every member of the Company present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have the right to speak; (b) on a show of hands every member present in any such manner shall have one vote; and (c) on a poll every member present in such manner shall have one vote for every share of which he is the holder.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint holders the vote of the senior holder who tenders a vote, whether in person or by proxy (or in the case of a corporation or other non-natural person, by its duly authorised representative or proxy) shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members of the Company.

A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by their committee, receiver, curator bonis, or other person on such member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.

No person shall be counted in a quorum or be entitled to vote at any general meeting unless he is registered as a member on the record date for such meeting, nor unless all calls or other monies then payable by him in respect of shares have been paid.

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At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

Any corporation or other non-natural person which is a member of the Company may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members, and the person so authorised shall be entitled to exercise the same powers as the corporation could exercise if it were an individual member.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company, provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which that person represents as that recognised clearing house (or its nominee(s)) could exercise as if such person were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.7 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting for each financial year, to be held within six months (or such other period as may be permitted by the Listing Rules or the Stock Exchange) after the end of such financial year. The annual general meeting shall be specified as such in the notices calling it.

The Directors may call general meetings, and they shall on a members' requisition forthwith proceed to convene an extraordinary general meeting of the Company. A members' requisition is a requisition of one or more members holding at the date of deposit of the requisition not less than 10% of the voting rights, on a one vote per share basis, of the issued shares which as at that date carry the right to vote at general meetings of the Company. The members' requisition must state the objects and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. If there are no Directors as at the date of the deposit of the members' requisition or if the Directors do not within 21 days from the date of the deposit of the members' requisition duly proceed to convene a general meeting to be held within a further 21 days, the requisitionists, or any of them representing more than one-half of the total voting rights

of all the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said 21 day period. A general meeting convened by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

2.8 *Accounts and audit*

The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Such books of account must be retained for a minimum period of five years from the date on which they are prepared. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

The Directors shall determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members of the Company not being Directors, and no member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by the Companies Act or authorised by the Directors or by the Company in general meeting.

The Directors shall cause to be prepared and to be laid before the Company at every annual general meeting a profit and loss account for the period since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up, a Directors' report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditors' report on such accounts and such other reports and accounts as may be required by law.

2.9 *Auditors*

The Company shall at every annual general meeting by ordinary resolution appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The Company may by ordinary resolution remove an auditor before the expiration of his period of office. No person may be appointed as an auditor of the Company unless such person is independent of the Company. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed by ordinary resolution, or in the manner specified in such resolution.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice and any extraordinary general meeting shall be called by not less than 14 days' notice, which shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Every notice shall specify the place, the day and the hour of the meeting, particulars of the resolutions and the general nature of the business to be conducted at the meeting. Notwithstanding the foregoing, a general meeting of the Company shall, whether or not the notice specified has been given and whether or not the provisions of the Articles of Association regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:

- (a) in the case of an annual general meeting, by all members of the Company entitled to attend and vote at the meeting; and
- (b) in the case of an extraordinary general meeting, by a majority in number of the members having a right to attend and vote at the meeting, together holding not less than 95% in par value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, they may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (a) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, provided that failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;

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- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where any new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer, which shall be in writing and in any standard form of transfer as prescribed by the Stock Exchange or such other form as the Directors may approve. The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company.

The Directors may decline to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and

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- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall notify the transferor and the transferee within two months of such refusal.

The registration of transfers shall be suspended during such periods as the register of members of the Company is closed. The Directors may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, close the register of members at such times and for such periods as the Directors may from time to time determine, provided that the register of members shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

Subject to the provisions of the Companies Act, the Company may purchase its own shares provided that (a) the manner of purchase has first been authorised by the members of the Company by ordinary resolution, and (b) any such purchase shall only be made in accordance with any relevant code, rules or regulations issued by the Stock Exchange or the Securities and Futures Commission of Hong Kong from time to time in force.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company may by ordinary resolution resolve to pay dividends and other distributions on shares in issue and authorise payment of the dividends or other distributions out of the funds of the Company lawfully available therefor, provided no dividends shall exceed the amount recommended by the Directors. No dividend or other distribution shall be paid except out of the realised or unreleased profits of the Company, out of the share premium account or as otherwise permitted by law.

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The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may in addition from time to time declare and pay special dividends on shares of such amounts and on such dates as they think fit.

Except as otherwise provided by the rights attached to any shares, all dividends and other distributions shall be paid according to the amounts paid up on the shares that a member holds during any portion or portions of the period in respect of which the dividend is paid. For this purpose no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may deduct from any dividends or other distribution payable to any member of the Company all sums of money (if any) then payable by the member to the Company on account of calls or otherwise. The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

No dividend shall carry interest against the Company. Except as otherwise provided by the rights attached to any shares, dividends and other distributions may be paid in any currency.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other monies payable in cash in respect of shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the register of members of the Company or to such person and to such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, other distributions, bonuses, or other monies payable in respect of the shares held by them as joint holders.

Any dividend or other distribution which remains unclaimed after a period of six years from the date on which such dividend or distribution becomes payable shall be forfeited and shall revert to the Company.

The Directors, with the sanction of the members of the Company by ordinary resolution, may resolve that any dividend or other distribution be paid wholly or partly by the distribution of specific assets, and in particular (but without limitation) by the distribution of shares, debentures, or securities of any other company or in any one or more of such ways, and where any difficulty arises in regard to such distribution, the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members of the Company upon the basis of the value so fixed in order to adjust the rights of all members, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

A member of the Company entitled to attend and vote at a general meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. Votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead at any one general meeting or at any one class meeting.

The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation or other non-natural person, under the hand of its duly authorised representative.

The Directors shall, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the instrument appointing a proxy shall be deposited and the place and the time (being not later than the time appointed for the commencement of the meeting or adjourned meeting to which the proxy relates) at which the instrument appointing a proxy shall be deposited.

The instrument appointing a proxy may be in any usual or common form (or such other form as the Directors may approve) and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked.

2.16 Calls on shares and forfeiture of shares

Subject to the terms of the allotment and issue of any shares, the Directors may make calls upon the members of the Company in respect of any monies unpaid on their shares (whether in respect of par value or premium), and each member of the Company shall (subject to receiving at least 14 clear days' notice specifying the times or times of payment) pay to the Company at the time or times so specified the amount called on his shares. A call may be revoked or postponed, in whole or in part, as the Directors may determine. A call may be required to be paid by instalments. A person upon whom a call is made shall remain liable for calls made upon him, notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share.

If a call remains unpaid after it has become due and payable, the person from whom it is due shall pay interest on the amount unpaid from the day it became due and payable until it is paid at such rate as the Directors may determine (and in addition all expenses that have been incurred by the Company by reason of such non-payment), but the Directors may waive payment of the interest or expenses wholly or in part.

If any call or instalment of a call remains unpaid after it has become due and payable, the Directors may give to the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any expenses incurred by the Company by reason of such non-payment. The notice shall specify where payment is to be made and shall state if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

If such notice is not complied with, any share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Directors. Such forfeiture shall include all dividends, other distributions or other monies payable in respect of the forfeited shares and not paid before the forfeiture.

A forfeited share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit.

A person any of whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares and shall surrender to the Company for cancellation the certificate for the shares forfeited and shall remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with interest at such rate as the Directors may determine, but that person's liability shall cease if and when the Company shall have received payment in full of all monies due and payable by them in respect of those shares.

2.17 Inspection of register of members

The Company shall maintain or cause to be maintained the register of members of the Company in accordance with the Companies Act. The Directors may, on giving 10 business days' notice (or 6 business days' notice in the case of a rights issue) by advertisement published on the Stock Exchange's website or, subject to the Listing Rules, in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, close the register of members at such times and for such periods as the Directors may determine, either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Except when the register is closed, the register of members shall during business hours be kept open for inspection by any member of the Company without charge.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present. Two members of the Company present in person or by proxy, or if a corporation or other non-natural person by its duly authorised representative or proxy, shall be a quorum unless the Company has only one member entitled to vote at such general meeting in which case the quorum shall be that one member present in person or by proxy, or in the case of a corporation or other non-natural person by its duly authorised representative or proxy.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.3 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

Subject to the Companies Act, the Company may by special resolution resolve that the Company be wound up voluntarily.

Subject to the rights attaching to any shares, in a winding up:

- (a) if the assets available for distribution amongst the members of the Company shall be insufficient to repay the whole of the Company's paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, on the shares held by them at the commencement of the winding up;

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- (b) if the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the Company's paid up capital at the commencement of the winding up, the surplus shall be distributed amongst the members of the Company in proportion to the capital paid up on the shares held by them at the commencement of the winding up.

If the Company shall be wound up, the liquidator may with the approval of a special resolution of the Company and any other approval required by the Companies Act, divide amongst the members of the Company in kind the whole or any part of the assets of the Company (whether such assets shall consist of property of the same kind or not) and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like approval, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like approval, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12-year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12-year period, the Company has caused an advertisement to be published in the newspapers or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, given notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

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SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 January 2022 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;

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- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

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4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

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8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

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12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by (a) 75% in value of shareholders, or (b) a majority in number representing 75% in value of creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

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15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Restructuring

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- (a) is or is likely to become unable to pay its debts; and
- (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

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18 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

19 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

20 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

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21 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

22 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is on display on the websites as referred to in the section headed "Documents on display" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Act as an exempted company with limited liability on January 10, 2022. Our Company has established its principal place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 13, 2022. Ms. Cheung Ka Lun Karen (張嘉倫) and Ms. Chan Wai Ling (陳蕙玲) have been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, we are subject to the Cayman Islands Companies Act, the Memorandum and the Articles and the applicable laws of the Cayman Islands. A summary of certain provisions of the Memorandum and Articles and relevant aspects of the Cayman Islands Companies Act is set out in “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this document.

2. Changes in the share capital of our Company

As of the date of incorporation of our Company, the authorized share capital of our Company was HK\$7,600,000 divided into 760,000,000 Shares of HK\$0.01 each. Upon its incorporation, one fully-paid Share was allotted and issued to an initial subscriber who is an Independent Third Party on January 10, 2022, which was then transferred to Bear Family at par on the same date.

On January 19, 2022, our Company issued and allotted a total of 44,777,900 ordinary Shares, in which 27,817,613, 7,568,442, 5,329,380, 3,461,307 and 601,158 Shares were allotted and issued, credited as fully paid at par, to Bear Family, Little Bear, Charlie Bear Technology Limited, Gold Bear Technology Limited and Trinity Limited, respectively.

Pursuant to the written resolutions of our Shareholders passed on March 22, 2022, the authorized share capital of the Company was amended to HK\$7,600,000 divided into (i) 710,799,188 ordinary Shares of HK\$0.01 each; (ii) 15,091,329 Series A Preferred Shares of HK\$0.01 each; (iii) 14,593,840 Series B Preferred Shares of HK\$0.01 each; (iv) 2,084,011 Series C Preferred Shares of HK\$0.01 each; (v) 12,824,688 Series D-1 Preferred Shares of HK\$0.01 each; (vi) 3,606,944 Series D-2 Preferred Shares of HK\$0.01 each; and (vii) 1,000,000 Series D-3 Preferred Shares of HK\$0.01 each. Our Company allotted and issued 6,622,445 and 11,111,111 ordinary Shares, credited as fully paid at par, to LX Brothers and Beauty Bear respectively. Further, our Company issued and allotted a total of 48,599,654 Preferred Shares of various classes in the following manner:

- (a) On March 28, 2022,
 - (i) 6,668,262 Series A Preferred Shares and 8,015,430 Series D-1 Preferred Shares were issued and allotted to Tigris Innovation Limited;

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- (ii) 2,084,011 Series C Preferred Shares were issued and allotted to Image Frame Investment (HK) Limited (意像架構投資(香港)有限公司);
 - (iii) 601,158 ordinary Shares issued and allotted to Trinity Limited were redesignated as Series D-2 Preferred Shares; and
 - (iv) 1,000,000 Series D-3 Preferred Shares were issued and allotted to Ultimate Lenovo Limited.
- (b) On April 6, 2022,
- (i) 6,668,262 Series A Preferred Shares, 3,929,111 Series B Preferred Shares and 1,603,086 Series D-1 Preferred Shares were issued and allotted to Shanghai Tong Yun Xin Xi Ji Shu Company Limited;
 - (ii) 1,754,805 Series A Preferred Shares were issued and allotted to Shanghai Yuanzhe Enterprise Management Partnership (LLP) (上海元輒企業管理合夥企業(有限合夥));
 - (iii) 10,664,729 Series B Preferred Shares and 3,005,786 Series D-2 Preferred Shares were issued and allotted to Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合夥)); and
 - (iv) 3,206,172 Series D-1 Preferred Shares were issued and allotted to Shanghai Jing Zhe Xin Xi Ji Shu Company Limited.

Each Series A Preferred Share, Series B Preferred Share, Series C Preferred Share, Series D-1 Preferred Share, Series D-2 Preferred Share and Series D-3 Preferred Share shall automatically be converted into ordinary Shares at the then effective applicable conversion price upon completion of the [REDACTED].

Pursuant to the written resolutions of the Shareholders passed on September 27, 2022, the authorized share capital of our Company was increased from HK\$7,600,000 to HK\$10,000,000 divided into 760,000,000 Shares of HK\$0.01 each by the creation of an additional 240,000,000 Shares.

Immediately following completion of the Capitalization Issue and the [REDACTED] and without taking into account any Shares which may be issued upon the exercise of the [REDACTED], the issued share capital of our Company will be HK\$[REDACTED] divided into [REDACTED] Shares, all fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

Save as disclosed above and as mentioned in “5. Written resolutions of our Shareholders passed on September 27, 2022” below, there has been no alteration in the share capital of our Company since its incorporation.

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3. Changes in the share capital of our subsidiaries

Our subsidiaries are set out in the Accountants’ Report, the text of which is set out in Appendix I to this document.

Save as disclosed in “History, Reorganization and Corporate Structure”, there has been no alteration in the share capital of our subsidiaries during the two years preceding the date of this document.

4. Particulars of our subsidiaries

Particulars of our subsidiaries are set forth in Note 1 of the Accountants’ Report, the text of which is set out in Appendix I to this document.

Below is additional information of Shenzhen LX and Shenzhen Lingrui, our major subsidiaries.

Shenzhen LX

Shenzhen LX was established as a limited liability company in the PRC on November 1, 2004. As at the time of its establishment, it was owned as to 70% by Mr. Hu, 20% by Mr. Hu Hua (胡華), an employee of our Group and 10% by Mr. Huang Fei (黃飛), an Independent Third Party. On May 25, 2015, LX Technology acquired the entire equity interests held by the then shareholders in Shenzhen LX. Upon completion of the aforesaid acquisition and as of the Latest Practicable Date, Shenzhen LX was wholly owned by LX Technology and had a registered capital of RMB2,000,000.

Shenzhen Lingrui

Shenzhen Lingrui was established as a limited liability company in the PRC on April 17, 2017 with a registered capital of RMB10,000,000. As at the time of its establishment, it was owned as to 51% by LX Technology and 49% by Mr. Wang Jingtao (王敬濤), an Independent Third Party. On March 12, 2019, LX Technology acquired the entire equity interest owned by Mr. Wang in Shenzhen Lingrui. Upon completion of such acquisition and as of the Latest Practicable Date, Shenzhen Lingrui was wholly owned by LX Technology and had a registered capital of RMB10,000,000.

5. Written resolutions of our Shareholders passed on September 27, 2022

Pursuant to the written resolutions passed by our Shareholders on September 27, 2022, among other matters:

- (a) our Company approved and conditionally adopted the Memorandum and the Articles which will become effective upon [REDACTED];

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- (b) the authorized share capital of our Company was increased from HK\$7,600,000 divided into (i) 710,799,188 Shares; (ii) 15,091,329 Series A Preferred Shares; (iii) 14,593,840 Series B Preferred Shares; (iv) 2,084,011 Series C Preferred Shares; (v) 12,824,688 Series D-1 Preferred Shares; (vi) 3,606,944 Series D-2 Preferred Shares; and (vii) 1,000,000 Series D-3 Preferred Shares to HK\$10,000,000 divided into (i) 950,799,188 Shares; (ii) 15,091,329 Series A Preferred Shares; (iii) 14,593,840 Series B Preferred Shares; (iv) 2,084,011 Series C Preferred Shares; (v) 12,824,688 Series D-1 Preferred Shares; (vi) 3,606,944 Series D-2 Preferred Shares; and (vii) 1,000,000 Series D-3 Preferred Shares by the creation of an additional 240,000,000 Shares ranking *pari passu* in all aspects with the existing Shares with immediate effect;
- (c) conditional on (aa) the Stock Exchange granting the approval for the [REDACTED] of, and permission to deal in, the Shares in issue and Shares to be allotted and issued pursuant to the Capitalization Issue, the [REDACTED] and as mentioned in this document including the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]; (bb) the [REDACTED] having been duly determined; and (cc) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of such agreement (or any conditions as specified in this document), in each case on or before the dates and times specified in the [REDACTED]:
- (i) the [REDACTED] was approved and our Directors were authorized to allot and issue the [REDACTED] pursuant to the [REDACTED];
- (ii) the [REDACTED] was approved and our Directors were authorized to allot and issue the Shares upon the exercise of the [REDACTED];
- (iii) each of the authorized and issued 15,091,329 Series A Preferred Shares, 14,593,840 Series B Preferred Shares, 2,084,011 Series C Preferred Shares, 12,824,688 Series D-1 Preferred Shares, 3,606,944 Series D-2 Preferred Shares and 1,000,000 Series D-3 Preferred Shares be redesignated and reclassified as Shares on a one-to-one basis, having the rights and restrictions as set out in the Memorandum and the Articles such that the authorized share capital of our Company be changed from HK\$10,000,000 divided into (i) 950,799,188 Shares; (ii) 15,091,329 Series A Preferred Shares; (iii) 14,593,840 Series B Preferred Shares; (iv) 2,084,011 Series C Preferred Shares; (v) 12,824,688 Series D-1 Preferred Shares; (vi) 3,606,944 Series D-2 Preferred Shares; and (vii) 1,000,000 Series D-3 Preferred Shares to HK\$10,000,000 divided into 1,000,000,000 Shares, with each Share ranking *pari passu* in all respects with the existing Shares;
- (iv) upon the redesignation and reclassification of the share capital of our Company referred in paragraph (iii) above and conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors

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were authorized to capitalize HK\$[REDACTED] standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par [REDACTED] Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company on the date of passing this resolution in proportion (as near as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company;

- (v) a general unconditional mandate was given to our Directors to issue, allot and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares not exceeding the aggregate of 20% of the number of issued Shares immediately following the completion of the Capitalization Issue and [REDACTED] (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;
- (vi) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to buy back on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the number of issued Shares immediately following the completion of the Capitalization Issue and the [REDACTED] (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first; and
- (vii) the general unconditional mandate mentioned in paragraph (v) above was extended by the addition to the number of issued Shares which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued

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by our Directors pursuant to such general mandate of an amount representing the total number of issued Shares bought back by our Company pursuant to the mandate to buyback Shares referred to in paragraph (vi) above.

6. REORGANIZATION

In preparation for the [REDACTED], the companies comprising our Group underwent the Reorganization and our Company became the holding company of our Group. For further details with regard to the Reorganization, see “History, Reorganization and Corporate Structure” in this document.

7. BUYBACK BY OUR COMPANY OF OUR OWN SECURITIES

This section includes information required by the Stock Exchange to be included in this document concerning the buyback by our Company of our own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) *Shareholders’ approval*

The Listing Rules provide that all proposed buybacks of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by our Shareholders on September 27, 2022, a general unconditional mandate (the “**Buyback Mandate**”) was granted to our Directors authorizing the buyback of shares by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, with the total number of Shares not exceeding 10% of the total number of Shares in issue and to be issued as mentioned herein, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by an applicable law or the Articles to be held or the date on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.

(ii) *Source of funds*

Buybacks must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles, the Listing Rules and the Cayman Islands Companies Act. A listed company may not buy back its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

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(iii) Core connected persons

The Listing Rules prohibit our Company from knowingly buying back the Shares on the Stock Exchange from a "core connected person", which includes a director, chief executive or substantial shareholder of our Company or any of the subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell his/her Shares to our Company.

(b) Reasons for buybacks

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable our Company to buy back Shares in the market. Such buybacks may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such buybacks will benefit our Company and our Shareholders.

(c) Funding of buyback

In buying back Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles, the Listing Rules and the applicable laws of the Cayman Islands.

It is presently proposed that any buyback of Shares will be made out of the profits of our Company, the share premium amount of our Company or the proceeds of a fresh issue of Shares made for the purpose of the buyback and, in the case of any premium payable on the purchase over the par value of the Shares to be bought back must be provided for, out of either or both of the profits of our Company or from sums standing to the credit of the share premium account of our Company. If authorized by the Articles and subject to the Cayman Islands Companies Act, any buyback of Shares may also be paid out of capital.

On the basis of the current financial position of our Group as disclosed in the section headed "Financial Information" and taking into account the current working capital position of our Company, our Directors consider that, if the Buyback Mandate were to be exercised in full, it might not have a material adverse effect on the working capital and/or the gearing position of our Group as compared to the position disclosed in this document. However, our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital and/or the gearing position of our Group which in the opinion of our Directors are from time to time appropriate for our Group.

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(d) Share capital

The exercise in full of the Buyback Mandate, on the basis of [REDACTED] Shares in issue immediately after the [REDACTED] (but not taking into account of our Shares which may be issued pursuant to the exercise of the [REDACTED]), would result in up to [REDACTED] Shares being bought back by our Company during the period until:

- (i) *the conclusion of the next annual general meeting of our Company;*
- (ii) *the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles to be held; or*
- (iii) *the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.*

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention if the Buyback Mandate is exercised to sell any Share(s) to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a buyback of Shares pursuant to the Buyback Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of Hong Kong Codes on Takeovers and Mergers and Share Buy-backs (the “**Takeovers Code**”). Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a buyback pursuant to the Buyback Mandate. Our Directors have no present intention to exercise the power to buy back Shares to such extent.

Any buyback of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

No core connected person of our Company has notified our Group that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

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B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) the capital increase agreement (增資協議) dated January 16, 2021 entered into among Shenzhen Rental Service Co., Ltd. (深圳市凌雄租賃服務有限公司), Mr. Hu Zuoxiong (胡祚雄), Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)), Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)), Jiangsu JD Bangneng Investment Management Co., Ltd. (江蘇京東邦能投資管理有限公司), Shenzhen Dachen Chuangtong Equity Investment Partnership (LLP) (深圳市達晨創通股權投資合夥企業(有限合夥)), Dongguan Dachen Chuangjing Equity Investment Partnership (LLP) (東莞市達晨創景股權投資合夥企業(有限合夥)), Ningbo Dachen Chuangyuan Equity Investment Partnership (LLP) (寧波市達晨創元股權投資合夥企業(有限合夥)), Small and Medium Enterprises Development Fund (Shenzhen Nanshan LLP) (中小企業發展基金(深圳南山有限合夥)), Shenzhen Futian District Zhongzhou Tiecheng Start-up Investment Enterprise (LLP) (深圳市福田區中洲鐵城創業投資企業(有限合夥)), Shenzhen Tencent Star-up and Innovation Development Co., Ltd. (深圳市騰訊創業創新發展有限公司), Shenzhen High-tech Investment Start-up Investment Co., Ltd. (深圳市高新投創業投資有限公司), Hangzhou Mingcheng Zhihui Phase I Equity Investment Partnership (LLP) (杭州明誠致慧一期股權投資合夥企業(有限合夥)) and Shanghai Hesheng Corporate Management Service Centre (LLP) (上海合聖企業管理服務中心(有限合夥)) in respect of the increase of registered capital of Shenzhen Rental Service Co., Ltd. (深圳市凌雄租賃服務有限公司) to RMB106,385,510;
- (b) the capital increase and equity transfer agreement (增資及轉讓協議) dated June 28, 2021 entered into among LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) (formerly known as Shenzhen Rental Service Co., Ltd. (深圳市凌雄租賃服務有限公司)), Mr. Hu Zuoxiong (胡祚雄), Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)), Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)), Jiangsu JD Bangneng Investment Management Co., Ltd. (江蘇京東邦能投資管理有限公司), Shenzhen Dachen Chuangtong Equity Investment Partnership (LLP) (深圳市達晨創通股權投資合夥企業(有限合夥)), Dongguan Dachen Chuangjing Equity Investment Partnership (LLP) (東莞市達晨創景股權投資合夥企業(有限合夥)), Ningbo Dachen Chuangyuan Equity Investment Partnership (LLP) (寧波市達晨創元股權投資合夥企業(有限合夥)), Small and Medium Enterprises Development Fund (Shenzhen Nanshan LLP) (中小企業發展基金(深圳南山有限合夥)), Shenzhen Futian District Zhongzhou Tiecheng Start-up Investment Enterprise (LLP) (深圳市福田區中洲鐵城創業投資企業(有限合夥)), Shenzhen Tencent Star-up and Innovation Development Co., Ltd. (深

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圳市騰訊創業創新發展有限公司), Shenzhen High-Tech Investment Start-Up Investment Co., Ltd. (深圳市高新投創業投資有限公司), Hangzhou Mingcheng Zhihui Phase I Equity Investment Partnership (LLP) (杭州明誠致慧一期股權投資合夥企業(有限合夥)), Shanghai Hesheng Corporate Management Service Centre (LLP) (上海合聖企業管理服務中心(有限合夥)) and Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司) in respect of (i) the increase of registered capital of Shenzhen Rental Service Co., Ltd. (深圳市凌雄租賃服務有限公司) to RMB106,607,146; (ii) the transfer of 0.558756% equity interest in Shenzhen Rental Service Co., Ltd. (深圳市凌雄租賃服務有限公司) from Mr. Hu Zuoxiong (胡祚雄) to Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司) at a consideration of RMB8,190,096; and (iii) the transfer of 0.234994% equity interest in Shenzhen Rental Service Co., Ltd. (深圳市凌雄租賃服務有限公司) from Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)) to Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司) at a consideration of RMB3,444,487;

- (c) the reorganization framework agreement (重組框架協議) dated February 9, 2022 entered into among LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司), LX Technology Group Limited (凌雄科技集團有限公司), Shenzhen Lingrui Internet Information Technology Co., Ltd. (深圳凌瑞網絡信息技術有限公司), Shenzhen LX Technology Limited (深圳凌雄科技有限公司), LX Youfu Technology (Shenzhen) Co., Ltd. (凌雄優服技術(深圳)有限公司), LX Youqi Technology (Shenzhen) Co., Ltd. (凌雄優企科技(深圳)有限公司), Chengdu LX Rental Services Co., Ltd. (成都凌雄租賃服務有限公司), Mr. Hu Zuoxiong (胡祚雄), Mr. Hua Baocheng, Mr. Zhang Hua (張華) and Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合夥)) pursuant to which all parties agreed on the steps to be taken and other related transactions to implement the reorganization of LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司);
- (d) the capital reduction agreement (減資協議) dated February 9, 2022 entered into among LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司), Mr. Hu Zuoxiong (胡祚雄), Jiangsu JD Bangneng Investment Management Co., Ltd. (江蘇京東邦能投資管理有限公司), Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)), Shenzhen Dachen Chuangtong Equity Investment Partnership (LLP) (深圳市達晨創通股權投資合夥企業(有限合夥)), Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)), Small and Medium Enterprises Development Fund (Shenzhen Nanshan LLP) (中小企業發展基金(深圳南山有限合夥)), Shenzhen Futian District Zhongzhou Tiecheng Start-up Investment Enterprise (LLP) (深圳市福田區中洲鐵城創業投資企業(有限合夥)), Dongguan Dachen Chuangjing Equity Investment Partnership (LLP) (東莞市達晨創景股權投資合夥企業(有限合夥)), Shenzhen Tencent Star-up and Innovation Development Co., Ltd. (深圳市騰訊創業創新發展有限公司), Hangzhou Mingcheng Zhihui Phase I Equity Investment Partnership (LLP) (杭州明誠致慧一期股權投資合夥企業(有限合夥)), Ningbo Dachen Chuangyuan Equity Investment Partnership (LLP) (寧波市達晨創元股權投資合夥企業(有限合夥)), Shenzhen High-Tech

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Investment Start-Up Investment Co., Ltd. (深圳市高新投創業投資有限公司), Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司) and Shanghai Hesheng Corporate Management Service Centre (LLP) (上海合聖企業管理服務中心(有限合夥)) pursuant to which all parties agreed for LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) to repurchase all parties', except for Mr. Hu Zuoxiong (胡祚雄), Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)) and Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥))'s, respective registered capital contribution in LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) and the registered capital of LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) was reduced to RMB54,155,565;

- (e) an equity transfer agreement (股權轉讓協議) dated February 16, 2022 entered into among Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)), Vulcan Investment Company Limited and LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司), pursuant to which Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)) agreed to transfer its 1% equity interest in LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) to Vulcan Investment Company Limited at a consideration of RMB5,450,000;
- (f) a warrant agreement dated March 28, 2022 entered into between Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合夥)) and LX Technology Group Limited (凌雄科技集團有限公司), pursuant to which LX Technology Group Limited (凌雄科技集團有限公司) agreed to issue a warrant certificate to Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合夥)) to subscribe for 10,664,729 Series B Preferred Shares and 3,005,786 Series D-2 Preferred Shares at a consideration of the amount of US\$ equivalent of RMB95,000,000 for the Series B Preferred Shares and the amount of US\$ equivalent of RMB50,000,000 for the Series D-2 Preferred Shares;
- (g) a warrant agreement dated March 28, 2022 entered into between Shanghai Tong Yun Xin Xi Ji Shu Company Limited and LX Technology Group Limited (凌雄科技集團有限公司) pursuant to which LX Technology Group Limited (凌雄科技集團有限公司) agreed to issue a warrant certificate to Shanghai Tong Yun Xin Xi Ji Shu Company Limited to subscribe for (i) 6,668,262 of Series A Preferred Shares; (ii) 3,929,111 of Series B Preferred Shares and (iii) 1,603,086 of Series D-1 Preferred Shares at the consideration the amount of US\$ equivalent of RMB38,000,000 for the Series A Preferred Shares, the amount of US\$ equivalent of RMB35,000,000 for the Series B Preferred Shares and the amount of US\$ equivalent of RMB20,000,000 for the Series D-1 Preferred Shares;

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- (h) a warrant agreement dated March 28, 2022 entered into between Shanghai Jing Zhe Xin Xi Ji Shu Company Limited and LX Technology Group Limited (凌雄科技集團有限公司) pursuant to which LX Technology Group Limited (凌雄科技集團有限公司) agreed to issue a warrant certificate to Shanghai Jing Zhe Xin Xi Ji Shu Company Limited to subscribe for 3,206,172 Series D-1 Preferred Shares at a consideration of the amount of US\$ equivalent of RMB40,000,000 for the Series D-1 Preferred Shares;
- (i) a warrant agreement dated March 28, 2022 entered into between Shanghai Yuanzhe Enterprise Management Partnership (LLP) (上海元輒企業管理合夥企業(有限合夥)) and LX Technology Group Limited (凌雄科技集團有限公司) pursuant to which LX Technology Group Limited (凌雄科技集團有限公司) agreed to issue a warrant certificate to Shanghai Yuanzhe Enterprise Management Partnership (LLP) (上海元輒企業管理合夥企業(有限合夥)) to subscribe for 1,754,805 Series A Preferred Shares at a consideration of the amount of US\$ equivalent of RMB10,000,000 for the Series A Preferred Shares;
- (j) an equity transfer agreement (股權轉讓協議) dated February 28, 2022 entered into among Mr. Hu Zuoxiong (胡祚雄), Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)), Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)), Vulcan Investment Company Limited, LX Technology (Hong Kong) Group Limited and LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) pursuant to which Mr. Hu Zuoxiong (胡祚雄), Shenzhen Hongyang Investment Partnership (LLP) (深圳市泓陽投資合夥企業(有限合夥)), Shenzhen LX Investment Partnership (LLP) (深圳市凌雄投資合夥企業(有限合夥)) and Vulcan Investment Company Limited agreed to transfer an aggregate 100% equity interest in LX Technology (Shenzhen) Co., Ltd. (凌雄技術(深圳)有限公司) to LX Technology (Hong Kong) Group Limited at a total consideration of RMB61,195,788; and
- (k) the [REDACTED].

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2. Intellectual property rights of our Group

(a) Trademarks

As of the Latest Practicable Date, our Company was the registered proprietor of the following trademarks which, in the opinion of our Directors, are material to our business:

No.	Trademark	Registration number	Class	Place of registration	Registered proprietor	Date of registration	Date of expiry
1.	小熊U租	46262227	35	PRC	LX Technology	March 7, 2021	March 6, 2031
2.	小熊U租	41552842	35	PRC	LX Technology	June 28, 2021	June 27, 2031
3.	小熊U站	32511598	37	PRC	LX Technology	April 28, 2020	April 27, 2030
4.	LBPC	32496989	9	PRC	LX Technology	April 14, 2019	April 13, 2029
5.	小熊U站	32490715	9	PRC	LX Technology	April 21, 2019	April 20, 2029
6.	小熊U享	31754109	40	PRC	LX Technology	April 7, 2019	April 6, 2029
7.	小熊U服联盟	30701245	45	PRC	LX Technology	June 21, 2019	June 20, 2029
8.	小熊U机	30700850	9	PRC	LX Technology	July 28, 2019	July 27, 2029
9.		30697720	37	PRC	LX Technology	June 21, 2019	June 20, 2029
10.	小熊U回收	30693328	40	PRC	LX Technology	April 14, 2019	April 13, 2029
11.	小熊U服联盟	30690830	9	PRC	LX Technology	July 28, 2019	July 27, 2029
12.	小熊U服	30679138	9	PRC	LX Technology	July 28, 2019	July 27, 2029
13.		30676959	41	PRC	LX Technology	June 21, 2019	June 20, 2029
14.	小熊U租	30407241	35	PRC	LX Technology	April 21, 2020	April 20, 2030

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No.	Trademark	Registration number	Class	Place of registration	Registered proprietor	Date of registration	Date of expiry
15.	小熊 U 租	30401709	37	PRC	LX Technology	February 28, 2020	February 27, 2030
16.	小熊 U 租	30396832	9	PRC	LX Technology	March 28, 2020	March 27, 2030
17.	小熊 U 租	30382861	40	PRC	LX Technology	February 21, 2019	February 20, 2029
18.	凌雄	27783943	40	PRC	LX Technology	November 28, 2018	November 27, 2028
19.	凌雄	27778746	37	PRC	LX Technology	November 21, 2018	November 20, 2028
20.	凌雄	27769154	38	PRC	LX Technology	November 21, 2018	November 20, 2028
21.	小租熊	20410458	42	PRC	LX Technology	August 14, 2017	August 13, 2027
22.		14497177	35	PRC	LX Technology	June 14, 2015	June 13, 2025
23.		27222592	35	PRC	Shenzhen Lingrui	October 28, 2018	October 27, 2028
24.		305781042	9, 35, 36, 37, 38, 40, 41, 42 and 45	Hong Kong	LX Technology	October 25, 2021	October 24, 2031
25.		305781060	9, 35, 36, 37, 38, 40, 41, 42 and 45	Hong Kong	LX Technology	October 25, 2021	October 24, 2031
26.		305781051	9, 35, 36, 37, 38, 40, 41, 42 and 45	Hong Kong	LX Technology	October 25, 2021	October 24, 2031

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(b) Copyright

As of the Latest Practicable Date, our Group was the registered proprietor of the following copyright in the PRC which, in the opinion of our Directors, is or may be material to our business:

No.	Copyright	Registration number	Type of work	Place of registration	Registered proprietor	Date of Registration
1.	Lingxiong Intelligent Task Scheduling Management System (凌雄智能化任務調度管理系統V1.0)	Ruan Zhu Deng Zi No. 8358407	Computer Software	PRC	LX Technology	November 4, 2021
2.	Lingxiong Intelligent Asset Tracking Management System (凌雄智能化資產跟蹤管理系統V1.0)	Ruan Zhu Deng Zi No. 8302067	Computer Software	PRC	LX Technology	October 28, 2021
3.	Bear Service Efficient Work Order Processing System V2.0 (小熊服務高效工單處理系統V2.0)	Ruan Zhu Deng Zi No. 7907443	Computer Software	PRC	LX Technology	August 11, 2021
4.	Lingxiong Material Process Efficient Management System V1.0 (凌雄物料工序高效管理系統V1.0)	Ruan Zhu Deng Zi No. 7846050	Computer Software	PRC	LX Technology	July 29, 2021
5.	Bear Mall Price Control System V1.0 (小熊商城價格管控系統V1.0)	Ruan Zhu Deng Zi No. 7744800	Computer Software	PRC	LX Technology	July 12, 2021
6.	Bear Cloud Inventory Management System V1.0 (小熊雲盤點管理系統V1.0)	Ruan Zhu Deng Zi No. 7574651	Computer Software	PRC	LX Technology	June 8, 2021
7.	Bear Service Efficient Work Order Processing System V1.0 (小熊服務高效工單處理系統V1.0)	Ruan Zhu Deng Zi No. 7570610	Computer Software	PRC	LX Technology	June 7, 2021
8.	Bear Intelligent Data Analysis Asset System V1.0 (小熊智能數據分析資產系統V1.0)	Ruan Zhu Deng Zi No. 6535834	Computer Software	PRC	LX Technology	December 4, 2020

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No.	Copyright	Registration number	Type of work	Place of registration	Registered proprietor	Date of Registration
9.	Bear Information Big Data Open Platform (小熊信息大數據開放平台V1.0)	Ruan Zhu Deng Zi No. 6456534	Computer Software	PRC	LX Technology	November 26, 2020
10.	Bear Cloud Computing Service Management System (小熊雲計算服務管理系統V1.0)	Ruan Zhu Deng Zi No. 6456533	Computer Software	PRC	LX Technology	November 26, 2020
11.	Bear Intelligent Supply Chain Management System V1.0 (小熊智能供應鏈管理系統V1.0)	Ruan Zhu Deng Zi No. 5903937	Computer Software	PRC	LX Technology	September 2, 2020
12.	Bear Information Exchange Platform V1.0 (小熊信息互通平台V1.0)	Ruan Zhu Deng Zi No. 5900605	Computer Software	PRC	LX Technology	September 1, 2020
13.	Lingxiong Intelligent Unified Authentication Intelligent Management System V1.0 (凌雄智能統一鑒權智能管理系統V1.0)	Ruan Zhu Deng Zi No. 5900613	Computer Software	PRC	LX Technology	September 1, 2020
14.	Bear U-Manager Asset Management System (iOS) [In short: Bear U-Manager] V1.0.0 (小熊U管家資產管理系統(iOS)[簡稱:小熊U管家]V1.0.0)	Ruan Zhu Deng Zi No. 5368196	Computer Software	PRC	LX Technology	May 21, 2020
15.	Bear U-Manager Asset Management System (Android) [In short: Bear U-Manager] V1.0.0 小熊U管家資產管理系統(Android)[簡稱:小熊U管家]V1.0.0	Ruan Zhu Deng Zi No. 5219548	Computer Software	PRC	LX Technology	April 16, 2020
16.	Bear Big Data Intelligent Credit Granting Platform (小熊大數據智能授信平台V1.0)	Ruan Zhu Deng Zi No. 4595770	Computer Software	PRC	LX Technology	November 20, 2019

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No.	Copyright	Registration number	Type of work	Place of registration	Registered proprietor	Date of Registration
17.	Lingxiong Asset Intelligent Allocation Management System V1.0 (凌雄資產智能調撥管理系統V1.0)	Ruan Zhu Deng Zi No. 4600744	Computer Software	PRC	LX Technology	November 20, 2019
18.	Lingxiong Intelligent Operation Analysis System V1.0 (凌雄智能化運營分析系統V1.0)	Ruan Zhu Deng Zi No. 4598767	Computer Software	PRC	LX Technology	November 20, 2019
19.	Lingxiong Integrated Warehouse Intelligent Management System V1.0 (凌雄一體化倉儲智能管理系統V1.0)	Ruan Zhu Deng Zi No. 4598552	Computer Software	PRC	LX Technology	November 20, 2019
20.	Lingxiong Data Visualization BI System V1.0 (凌雄數據可視化BI系統V1.0)	Ruan Zhu Deng Zi No. 4598697	Computer Software	PRC	LX Technology	November 20, 2019
21.	Bear Business Treasure Box Management System (Android) (小熊業務百寶箱管理系統(安卓)V1.0)	Ruan Zhu Deng Zi No. 4423250	Computer Software	PRC	LX Technology	September 27, 2019
22.	Lingxiong Quotation Management System V1.0 (凌雄報價管理系統V1.0)	Ruan Zhu Deng Zi No. 4400614	Computer Software	PRC	LX Technology	September 23, 2019
23.	Lingxiong Commodity Management System V1.0 (凌雄商品管理系統V1.0)	Ruan Zhu Deng Zi No. 4400415	Computer Software	PRC	LX Technology	September 23, 2019
24.	Lingxiong Bill Management System V1.0 (凌雄賬單管理系統V1.0)	Ruan Zhu Deng Zi No. 4345628	Computer Software	PRC	LX Technology	September 5, 2019
25.	Lingxiong Workflow Management System V1.0 (凌雄工作流管理系統V1.0)	Ruan Zhu Deng Zi No. 4345913	Computer Software	PRC	LX Technology	September 5, 2019

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No.	Copyright	Registration number	Type of work	Place of registration	Registered proprietor	Date of Registration
26.	Bear Business Treasure Box Management System V1.0 (小熊業務百寶箱管理系統V1.0)	Ruan Zhu Deng Zi No. 4377210	Computer Software	PRC	LX Technology	September 16, 2019
27.	Lingxiong Risk Control Management System (凌雄風控管理系統V1.0)	Ruan Zhu Deng Zi No. 4377584	Computer Software	PRC	LX Technology	September 16, 2019
28.	Lingxiong Payment Gateway System V1.0 (凌雄支付網關系統V1.0)	Ruan Zhu Deng Zi No. 3763707	Computer Software	PRC	LX Technology	April 17, 2019
29.	Bear U-Rental Mall User Management System V1.0 (小熊U租商城用戶管理系統V1.0)	Ruan Zhu Deng Zi No. 3576954	Computer Software	PRC	LX Technology	February 19, 2019
30.	Bear U-Rental Mall Contract Management System V1.0 (小熊U租商城合同管理系統V1.0)	Ruan Zhu Deng Zi No. 3576974	Computer Software	PRC	LX Technology	February 19, 2019
31.	Bear U-Rental Mall Commodity Management System (小熊U租商城商品管理系統V1.0)	Ruan Zhu Deng Zi No. 3429394	Computer Software	PRC	LX Technology	January 3, 2019
32.	Lingxiong Asset Management System V1.0 (凌雄資產管理系統V1.0)	Ruan Zhu Deng Zi No. 3203258	Computer Software	PRC	LX Technology	November 1, 2018
33.	Lingxiong Rights Management System V1.0 (凌雄權限管理系統V1.0)	Ruan Zhu Deng Zi No. 2609853	Computer Software	PRC	LX Technology	April 25, 2018
34.	Lingxiong Customer Management System V1.0 (凌雄客戶管理系統V1.0)	Ruan Zhu Deng Zi No. 2609298	Computer Software	PRC	LX Technology	April 25, 2018

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No.	Copyright	Registration number	Type of work	Place of registration	Registered proprietor	Date of Registration
35.	Lingxiong Supplier Management System V1.0 (凌雄供應商管理系統V1.0)	Ruan Zhu Deng Zi No. 2609289	Computer Software	PRC	LX Technology	April 25, 2018
36.	Lingxiong Order Management System V1.0 (凌雄訂單管理系統V1.0)	Ruan Zhu Deng Zi No. 2487257	Computer Software	PRC	LX Technology	March 9, 2018
37.	Lingxiong Warehouse Management System V1.0 (凌雄倉庫管理系統V1.0)	Ruan Zhu Deng Zi No. 2486415	Computer Software	PRC	LX Technology	March 9, 2018
38.	Lingxiong Procurement Management System V1.0 (凌雄採購管理系統V1.0)	Ruan Zhu Deng Zi No. 2485558	Computer Software	PRC	LX Technology	March 9, 2018
39.	Lingxiong Leasing Platform Backstage Report Statistics Management System Software V1.0 (凌雄租賃平台後台報表統計管理系統軟件V1.0)	Ruan Zhu Deng Zi No. 1747909	Computer Software	PRC	LX Technology	May 5, 2017
40.	Lingxiong Leasing Platform Product Attribute Configuration Management System Software V1.0 (凌雄租賃平台產品屬性配製管理系統軟件V1.0)	Ruan Zhu Deng Zi No. 1563754	Computer Software	PRC	LX Technology	December 21, 2016
41.	Lingxiong Leasing Platform Advertisement Management System Software V1.0 (凌雄租賃平台廣告管理系統軟件V1.0)	Ruan Zhu Deng Zi No. 1408853	Computer Software	PRC	LX Technology	August 23, 2016

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No.	Copyright	Registration number	Type of work	Place of registration	Registered proprietor	Date of Registration
42.	Lingxiong Leasing Platform Information Management System Software V1.0 (凌雄租賃平台資訊管理系統軟件V1.0)	Ruan Zhu Deng Zi No. 1408850	Computer Software	PRC	LX Technology	August 23, 2016
43.	Lingxiong Leasing Platform Member Management System Software V1.0 (凌雄租賃平台會員管理系統軟件V1.0)	Ruan Zhu Deng Zi No. 1380097	Computer Software	PRC	LX Technology	August 2, 2016
44.	Lingxiong Leasing Platform Member Management System Software V1.0 (凌雄租賃平台產品促銷管理系統軟件V1.0)	Ruan Zhu Deng Zi No. 1377166	Computer Software	PRC	LX Technology	July 29, 2016
45.	Lingxiong Leasing Platform Order Management System Software V1.0 (凌雄租賃平台訂單管理系統軟件V1.0)	Ruan Zhu Deng Zi No. 1276084	Computer Software	PRC	LX Technology	May 6, 2016
46.	Lingxiong Leasing Platform Product Release Software V1.0 (凌雄租賃平台產品發佈軟件V1.0)	Ruan Zhu Deng Zi No. 1276194	Computer Software	PRC	LX Technology	May 6, 2016
47.	UU Bear (UU熊)	Guo Zuo Deng Zi -2019-F- 00881335	Artwork	PRC	LX Technology	September 10, 2019
48.	Upgraded UU Bear (升級版UU熊)	Guo Zuo Deng Zi -2019-F- 00881336	Artwork	PRC	LX Technology	September 10, 2019
49.	Bear Customer Data Operation Management System V1.0 (小熊客戶端數據操作管理系統V1.0)	Ruan Zhu Deng Zi No. 9703099	Computer Software	PRC	LX Technology	June 14, 2022
50.	Bear Operation Communication Management System V1.0 (小熊運營通信管理系統V1.0)	Ruan Zhu Deng Zi No. 9702961	Computer Software	PRC	LX Technology	June 14, 2022

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(c) Domain names

As of the Latest Practicable Date, our Group was the registered proprietor of the following domain names, which in the opinion of our Directors, are material to our business:

No.	Domain name	Name of registered proprietor	Date of registration	Date of expiry
1.	bearrental.cn	LX Technology	May 7, 2018	May 7, 2024
2.	bearrental.com.cn	LX Technology	May 7, 2018	May 7, 2024
3.	bearrental.net	LX Technology	May 7, 2018	May 7, 2024
4.	lxrental.cn	LX Technology	October 17, 2017	October 17, 2024
5.	lxrental.com.cn	LX Technology	October 17, 2017	October 17, 2024
6.	lxrental.com	LX Technology	October 17, 2017	October 17, 2024
7.	lxrental.net	LX Technology	October 17, 2017	October 17, 2024
8.	52rental.cn	LX Technology	September 30, 2017	September 30, 2023
9.	52rental.com.cn	LX Technology	September 30, 2017	September 30, 2023
10.	52rental.com	LX Technology	September 30, 2017	September 30, 2023
11.	52rental.net	LX Technology	September 30, 2017	September 30, 2023
12.	4006785432.cn	LX Technology	September 30, 2017	September 30, 2023
13.	4006785432.com.cn	LX Technology	September 30, 2017	September 30, 2023
14.	4006785432.com	LX Technology	September 30, 2017	September 30, 2023
15.	4006785432.net	LX Technology	September 30, 2017	September 30, 2024
16.	itrent.cn	LX Technology	August 17, 2016	August 17, 2024
17.	lxzl.com.cn	LX Technology	March 5, 2011	March 5, 2025

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No.	Domain name	Name of registered proprietor	Date of registration	Date of expiry
18.	bearrental.com	LX Technology	November 11, 2010	November 11, 2024
19.	lx02.com	LX Technology	May 20, 2008	May 20, 2026
20.	lr-amm.com	Shenzhen Lingrui	October 14, 2017	October 14, 2024
21.	lxzl.cn	Shenzhen LX	February 4, 2012	February 4, 2025

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of Interests – Interests and short positions of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Capitalization Issue and the [REDACTED] and assuming that the [REDACTED] is not exercised, the interests or short positions of our Directors or chief executives of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, once our Shares are [REDACTED] will be as follows:

(i) Interest in our Company

Name of Director	Nature of Interest	Number of Shares interested ⁽¹⁾	Approximate percentage of interest
Mr. Hu	Interest in controlled corporations; beneficial owner ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	[REDACTED] Shares (L)	[REDACTED]%
Mr. Chen Xiuwei	Beneficial owner ⁽⁶⁾	[REDACTED] Shares (L)	[REDACTED]%

Notes:

- (1) The letter “L” denotes the person’s long position in our Shares.
- (2) Bear Family is wholly owned by Mr. Hu. By virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by Bear Family.

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- (3) The entire issued share capital of Beauty Bear is held by Teeroy Limited, who was entrusted by our Company to hold such shares for the Beauty Bear Employee Incentive Plan. Pursuant to the deed of trust signed by our Company and Teeroy Limited, Teeroy Limited will exercise the voting rights in our Company through Beauty Bear in accordance with the instructions of Mr. Hu. By virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by Beauty Bear.
- (4) Mr. Hu controls the entire voting rights of Little Bear. As such, by virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by Little Bear.
- (5) The entire issued share capital of LX Brothers is held by Tricor Trust (Hong Kong) Limited (“**Tricor Trust**”), who was entrusted by our Company to hold such shares for the purpose of the LX Brothers Employee Incentive Plan. Pursuant to the deed of trust signed by our Company and Tricor Trust, Tricor Trust will exercise the voting rights in our Company through LX Brothers in accordance with the instructions of Mr. Hu. By virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by LX Brothers.
- (6) Each of Mr. Hu and Mr. Chen Xiuwei has been granted options with respect to [REDACTED] and [REDACTED] outstanding Shares under the LX Brothers Employee Incentive Plan. These Shares are currently held by Tricor Trust (see note (5) above). For details, please refer to the section headed “D. Employee Incentive Plans – 1. LX Brothers Employee Incentive Plan” in this section.

(ii) Interest in associated corporation of our Company

Name of Director	Name of associated corporation	Nature of Interest	Number of shares interested in the associated corporation ¹	Approximate percentage of interest
Mr. Hu	Bear Family	Beneficial owner	1 shares (L)	100%
	Little Bear	Beneficial owner	878 voting shares (L)	8.78%

¹ The letter “L” denotes the person’s long position in the shares of the associated corporation.

(b) Particulars of service agreements and letters of appointment

Each of our executive Directors [has entered] into a service agreement with our Company for a term of three years commencing from the date of appointment or re-designation as an executive Director, which may be terminated by not less than three months’ notice in writing served by either party on the other.

Our non-executive Director [has entered] into a letter of appointment with our Company for a term of three years commencing from the date of appointment, which may be terminated by not less than three months’ notice in writing served by either party on the other.

Each of our independent non-executive Directors [has entered] into a letter of appointment with our Company for a term of three years commencing from the date of appointment, which may be terminated by not less than three months’ notice in writing served by either party on the other.

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(c) Directors’ remuneration

The aggregate remuneration (including salaries, allowances and benefits in kind, pension scheme contributions and social welfare) paid to our Directors for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 was RMB1.3 million, RMB2.1 million, RMB2.3 million and RMB6.0 million, respectively. For details, please refer to Note 11 of the Accountants’ Report set out in Appendix I to this document.

Each of our independent non-executive Directors has been appointed for a term three years. We intend to pay a director’s fee of RMB120,000 per annum to Ms. Xu Nailing (徐乃玲) and Ms. Zhao Jinlin (趙晉琳), and HKD120,000 per annum to Mr. Kam Chi Sing (甘志成). Save for directors’ fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as independent non-executive Directors.

Under the arrangement currently in force, the aggregate remuneration (including fees, salaries, bonus, share-based payments, contributions to retirement benefits scheme, allowances and other benefits in kind) of our Directors for the year ending December 31, 2022 is estimated to be no more than approximately RMB16.1 million.

2. Substantial shareholders

(a) Interest of substantial Shareholders in our Company

Save as disclosed in the section headed “Substantial Shareholders”, so far as our Directors are aware, immediately following the completion of the Capitalization Issue and the [REDACTED] assuming that the [REDACTED] is not exercised, no person (other than our Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in our Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO), or who will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

3. Agency fees or commissions received

Save as disclosed in the section headed “[REDACTED]”, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

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4. Disclaimers

- (a) save as disclosed in this section, none of our Directors or chief executive of our Company has any interest or short position in our shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors Of Listed Issuers once our Shares are [REDACTED];
- (b) none of our Directors or experts referred to under “– E. Other information – 7. Qualifications and consents of experts” below has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
- (d) save as disclosed in this section, none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the [REDACTED], none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [REDACTED], have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the issued voting shares of any member of our Group; and
- (f) so far as is known to our Directors, as of the Latest Practicable Date, save as disclosed in “Business – Our Suppliers” and “Business – Our Customers” of this document, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders of our Company who are interested in more than 5% of the total number of issued Shares has any interests in the five largest customers or the five largest suppliers of our Group.

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D. EMPLOYEE INCENTIVE PLANS

1. LX Brothers Employee Incentive Plan

The following is a summary of the principal terms of our LX Brothers Employee Incentive Plan adopted by our Company pursuant to the written resolutions of our Board passed on March 23, 2022.

(a) Purpose

The LX Brothers Employee Incentive Plan is a share incentive scheme and is established to recognise the contribution of the employees of our Group towards its growth and success. The LX Brothers Employee Incentive Plan is not subject to Chapter 17 of the Listing Rules. The Company shall comply with Chapter 14A and other applicable rules of the Listing Rules in respect of the LX Brothers Employee Incentive Plan upon [REDACTED]. The LX Brothers Employee Incentive Plan will provide the eligible participants with an opportunity to have a personal stake in us with a view to achieving the following objectives:

- (i) encourage the eligible participants to contribute to our Group for the long-term benefits of our Company; and
- (ii) provide our Group with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the eligible participants.

(b) Who may join

Those eligible to participate in the LX Brothers Employee Incentive Plan include any director, employee or senior management employee, including without limitation the chief executive officer, chief financial officer, chief operation officer or other officer or persons whom a committee of the Board considers, in its absolute discretion, have contributed or will contribute to our Group.

(c) Grant of the pre-[REDACTED] share options

In recognition of the contributions made by the employees of our Group towards its growth and success, on April 1, 2022, a total of 102 eligible participants were offered options to subscribe for an aggregate of [REDACTED] Shares (as adjusted after the Capitalization Issue), representing approximately [REDACTED]% of the issued Shares immediately following the [REDACTED] (assuming the [REDACTED] is not exercised). A list of the options granted under the LX Brothers Employee Incentive Plan to each of the Directors, the senior management or the connected persons of the Company is set forth below as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix

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1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

Grantee	Position held with our Group	Address	Number of Shares to be issued upon full exercise of the options granted under the LX Brothers Employee Incentive Plan as adjusted after the Capitalization Issue	Exercise Price	Consideration paid as at the Latest Practicable Date	Vesting Period	Exercise Period	Approximate percentage of the issued share capital of our Company after completion of the [REDACTED]
<i>Director</i>								
Mr. Hu	Chairman of our Board, chief executive officer and executive Director	Flat 16E1, Building C3, Qiao Xiang Road 2023, Futian District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Mr. Chen Xiuwei (陳修偉)	Executive Director, chief technology officer and vice president	Flat 6C, Hong Yi Building, Tianyuelongting Xinan Road, Baoan District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
<i>Senior management of our Group</i>								
Jiang Zeli (蔣澤立)	Chief financial officer and vice president	Flat 15E, Building C, Jiabin Garden, Baoan South Road 1050, Luohu District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Liu Yan (劉炎)	Joint company secretary and general manager of the funding center	Flat 15C01, Shanhaijin, She Kou, Nanshan district, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
<i>Connected person of our Group</i>								
Jiang Yuanzhu (蔣元珠)	Sales director and former director of LX Technology	Flat 1403, Block 4, Guomao Tianyue Garden, 67 Xidi Road, Baohe District, Hefei City, Anhui Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
<i>Key Employees</i>								
Chen Hongli (陳紅麗)	General manager (Wuhan)	Room 2903, 29th Floor, Building 5, 147 Luoshi Road, Hongshan District, Wuhan, Hubei Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Liu Chaohong (劉朝虹)	Risk management director	No. 20, Shangsha New Village, Futian District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
He Bo (何波)	General manager (Nanjing)	Room 102, Building 24, Kangsheng Garden, 1 Yulan Road, Yuhuatai District, Nanjing, Jiangsu Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Peng Meisheng (彭美勝)	General manager (Chengdu)	No. 1, 14th Floor, Unit 1, Building 3, 48 Jindu Section, Airport Road, Shuangliu District, Chengdu, Sichuan Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Wu Xuanyao (吳炫耀)	Sales centre director (Recycling)	Room 904, Unit 2, Building B, Xiangmingyuan, 21 Jingtian West Road, Futian District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]

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Grantee	Position held with our Group	Address	Number of Shares to be issued upon full exercise of the options granted under the LX Brothers Employee Incentive Plan as adjusted after the Capitalization Issue	Exercise Price	Consideration paid as at the Latest Practicable Date	Vesting Period	Exercise Period	Approximate percentage of the issued share capital of our Company after completion of the [REDACTED]
Hu Hua (胡華)	Production and storage centre director	Group 1, Shuangyan Village, Zhanghe Town, Dongbao District, Jingmen, Hubei Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Hou Dongmei (侯冬梅)	Vice president of human resources centre	4C, Block 1, Building 9, Jindi Tennis Garden, 2 Antuoshan 9th Road, Futian District, Shenzhen, Guangdong Province	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Li Andong (李安東)	Sales management centre director	14H, Building B, Liyuan Building, 24 Guimiao Road, Nanshan District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Ren Aimin (任愛民)	General manager (Guangzhou)	Room 110, 38 Meilin Road, Futian District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Zhang Hu (張虎)	Sourcing centre director	Room 208A, 2nd Floor, Building A1, Shenzhen North Station West Plaza, Zhiyuan Middle Road, Longhua District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Li Hongwen (李洪文)	Marketing director	1st Floor, Block B, Longjing Garden, Longjing Road, Nanshan District, Shenzhen, Guangdong Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Cheng Fang (程芳)	Business support centre director	Wangjia Village, Du Town, Gu Xian, Poyang Xian, Shangrao City, Jiangxi Province, China	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Total			[REDACTED]		Nil			[REDACTED]

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The table below shows the details of the outstanding options granted to the remaining 85 grantees, who are not Directors, senior management or connected persons of the Company or grantees being granted with options which will lead to the issuance of more than 270,000 Shares (as adjusted after the Capitalization Issue) upon full exercise of the options granted. These remaining grantees are beneficially interested in the [REDACTED] options under the LX Brothers Employee Incentive Plan:

Range of Shares underlying outstanding options as adjusted after the Capitalization Issue under the LX Brothers Employee Incentive Plan	Total number of grantees	Total number of Shares	Exercise Price	Consideration paid as at the Latest Practicable Date	Vesting period	Exercise Period	Approximately percentage of issued Shares immediately after completion of the [REDACTED]
1 share to 49,999 shares	74	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
50,000 shares to 270,000 shares	11	[REDACTED]	HK\$0.01	Nil	[REDACTED]	ten years from the grant date	[REDACTED]
Total	<u>85</u>	<u>[REDACTED]</u>		Nil			<u>[REDACTED]</u>

Save as disclosed above, no other options have been granted or agreed to be granted by us under the LX Brothers Employee Incentive Plan. Application has been made to the Stock Exchange for the approval for the [REDACTED] of and permission to deal in Shares to be issued pursuant to the exercise of options granted under the LX Brothers Employee Incentive Plan.

(d) Time of exercise of option and duration of the LX Brothers Employee Incentive Plan

Subject to the terms of the LX Brothers Employee Incentive Plan, a grantee is entitled to exercise, at any time prior to the expiry of 10 years from the date on which the offer of options is made, up to one-fourth or half or three-fourth of his/her granted and accepted options under the LX Brothers Employee Incentive Plan during the period which the committee of the Board notifies to each grantee, commencing from each of the first, second, third and fourth anniversaries or the first and second anniversaries of the date on which the offer of options is made, respectively, provided that the grantee remains to be an eligible participant entitled to exercise his or her option.

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(e) Price of Shares

The exercise price per Share in respect of any particular option granted under the LX Brothers Employee Incentive Plan shall be determined by the committee of the Board and included in the letter to the grantee containing the offer of options, which could be a fixed or variable figure with reference to the fair value per Share.

(f) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable or transferable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(g) Ranking of Shares

A grantee is not entitled to vote, to receive dividends or to have any other rights of a shareholder in respect of Shares until the option is validly exercised by the grantee, Shares are transferred to the grantee and the relevant shares are registered in the name of the grantee in accordance with LX Brothers Employee Incentive Plan. Upon exercise of an option, the Shares will rank *pari passu* with the fully paid Shares in issue and subject to the provisions of the memorandum and articles of association of the Company for the time being in force.

(h) Effect of alterations to capital

In the event of any capitalisation issue, rights issue, sub-division, consolidation of shares, or reduction of share capital of our Company, the auditors or the independent financial adviser engaged by the Company for such purpose shall determine what adjustment is required to be made to the exercise price and/or the number of shares to be transferred on exercise of the options, provided that such adjustments shall give the eligible participant the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes, the "**Supplemental Guidance**") and any adjustments to the advantage of the eligible participants to the exercise price or to the number of Shares subject to the options must be approved by the Shareholders in general meeting, and no adjustments may be made to the extent that Shares would be issued at less than their nominal value. In addition, any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time, to the extent applicable.

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(i) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option period relevant to that option;
- (ii) the date of commencement of the winding-up of our Company in accordance with the Companies Ordinance;
- (iii) the date on which the grantee ceases to be an eligible participant for any reason including gross negligence, wilful misconduct or convicted of a criminal offence; or
- (iv) the date on which the committee of our Board shall exercise our right to cancel the option at any time.

(j) Alteration of the LX Brothers Employee Incentive Plan

The terms and conditions of the LX Brothers Employee Incentive Plan may be altered in any respect by resolution of our Board except that any alterations of the authority of our Directors or administrator of the LX Brothers Employee Incentive Plan in relation to any alteration of the terms of the LX Brothers Employee Incentive Plan shall first be approved by our Shareholders in general meeting.

(k) Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options.

(l) Maximum number of Shares

The total number of Shares in respect of which options may be transferred under the LX Brothers Employee Incentive Plan is such number of Shares, representing no more than 6% of the issued share capital of our Company as at the date of adoption of LX Brothers Employee Incentive Plan. The total number of Shares abovementioned may be adjusted, in the event of a capitalisation issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company. Any such adjustments shall give the grantees the same proportion of equity capital as they were previously entitled to and no adjustments shall be made to the extent that a Share would be issued at less than its nominal value.

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(m) Termination of the LX Brothers Employee Incentive Plan

We may by ordinary resolution in general meeting or our Board at any time terminate the LX Brothers Employee Incentive Plan. In the event of termination, no further option shall be offered but the provisions of the LX Brothers Employee Incentive Plan shall remain in full force and effect. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the LX Brothers Employee Incentive Plan.

(n) Administration of our Board

The LX Brothers Employee Incentive Plan shall be subject to the administration of the committee of our Board who has the sole and absolute right to make decision as to all matters arising in relation to the LX Brothers Employee Incentive Plan or its interpretation or effect (except as otherwise provided in the rules of the LX Brothers Employee Incentive Plan).

(o) Conditions of the LX Brothers Employee Incentive Plan

The LX Brothers Employee Incentive Plan shall take effect subject to and is conditional upon the approval and adoption by a resolution of our Board.

(p) Disclosure in annual and interim reports

We will disclose details of the LX Brothers Employee Incentive Plan in our annual and interim reports in accordance with the Listing Rules in force from time to time.

2. Beauty Bear Employee Incentive Plan

2.1 Beauty Bear Share Option Scheme

The following is a summary of the principal terms of our beauty bear share option scheme (the “**Beauty Bear Share Option Scheme**”) adopted by the Board pursuant to the written resolutions passed on April 1, 2022.

(a) Purpose

The Beauty Bear Share Option Scheme is established to recognise and acknowledge the contributions that the eligible participants had or may have made to our Group and is subject to Chapter 17 of the Listing Rules and proposed amendments thereto which will be effective from January 1, 2023. The Beauty Bear Share Option Scheme will provide the eligible participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) encourage the eligible participants to contribute to our Group for the long-term benefits of our Company; and

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- (ii) provide our Group with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the eligible participants.

(b) *Who may join*

Those eligible to participate in the Beauty Bear Share Option Scheme include any director, employee or senior management employee, including without limitation the chief executive officer, chief financial officer, chief operation officer or other officer or persons whom a committee of our Board considers, in its absolute discretion, have contributed or will contribute to our Group.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant.

(c) *Acceptance of an offer of Options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate letter comprising acceptance of the offer of option duly signed by the grantee, together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such remittance or payment shall in no circumstances be refundable. Any offer to grant an option to acquire for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to other terms and conditions of the Beauty Bear Share Option Scheme, an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for our Shares in respect of which the notice is given. Within 28 days after receipt of the notice and the remittance, confirmation of the eligibility of the exercise by the committee of our Board and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial adviser as the case may be, our Company shall caused to be transferred the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of our Shares so transferred.

The exercise of any option shall be subject to our Shareholders approving any necessary increase in the share capital of our Company.

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(d) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Beauty Bear Share Option Scheme of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion as at the date of adoption of Beauty Bear Share Option Scheme of the [REDACTED], being [REDACTED] Shares. The maximum number of Shares subject to the Beauty Bear Share Option Scheme may be adjusted in the event of a capitalisation issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company. Any such adjustments shall give the eligible participants the same proportion of equity capital as they were previously entitled to and no adjustments shall be made to the extent that a Share would be issued at less than its nominal value. In respect of any such adjustments, other than those made on a capitalisation issue, the auditors or the independent financial adviser engaged by our Company shall confirm to the committee of our Board in writing that the adjustments satisfy the requirement.

(e) Price of Shares

The exercise price per Share in respect of any particular option granted under the Beauty Bear Share Option Scheme shall be determined by the committee of our Board and included in the letter to the grantee containing the offer of options, which could be a fixed or variable figure with reference to the fair value per Share.

(f) Rights are personal to grantee

An option and offer to grant an option is personal to the grantee and shall not be transferrable or assignable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(g) Time of exercise of Option and duration of the Beauty Bear Share Option Scheme

Subject to the terms of the Beauty Bear Share Option Scheme, a grantee is entitled to exercise, at any time prior to the expiry of 10 years from the date on which the offer of options is made, up to one-fourth of his/her granted and accepted options under the Beauty Bear Share Option Scheme during the period which the committee of our Board notifies to each grantee, commencing from each of the first, second, third and fourth anniversaries of the date on which the offer of options is made, respectively, provided that the grantee remains to be an eligible participant entitled to exercise his or her option.

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(h) Performance target

Subject to the applicable provisions of the Listing Rules, options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise (e.g., by linking their vesting to the achievement of certain performance targets and/or their exercise to the attainment or performance of milestones by any member of our Group, the grantee or any group of eligible participants) as the committee of our Board may in its sole and absolute discretion determine.

(i) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of our members of our Group:

- (i) by any kind of involuntary termination by any reason other than death, permanent disability and incapacitation or termination of his/her employment on the grounds specified in paragraph (j) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of three months from such cessation; or
- (ii) by reason of death, total and permanent disability and incapacitation, the personal representative(s) of the grantee or the grantee may exercise the option within a period of six months from the date of such death or total and permanent disability and incapacitation (provided that such exercise is during the relevant option period) up to the entitlement of such grantee as at the date of his/her death or becoming totally and permanently disabled and incapacitated (to the extent that he or she is vested with and entitled to exercise at such date but not already exercised or expired), failing which it will lapse.

(j) Rights on dismissal

If the grantee of an option ceases to be an employee of our Company or any of our subsidiaries on the grounds that he or she has contravened any policy of any member of our Group, has been guilty of serious misconduct, has disclosed without consent any trade or commercial secret belonging to our Group, has taken any action or done anything in his/her capacity which has (in our Company's sole opinion) brought any member of our Group into disrepute or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily, his/her option will lapse and not be exercisable after the date of termination of his employment.

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(k) Rights on takeover

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time after the general offer becomes or is declared unconditional and up to the close of such offer or within such period as shall be notified by our Company.

(l) Rights on winding-up

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee shall be entitled to exercise all or any of his options (whether vested or not) at any time thereafter (but before such time as shall be notified by our Company), whereupon our Company shall as soon as possible and, in any event, no later than three days immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(m) Rights on compromise or arrangement between our Company and our members or creditors

In the event of a compromise or arrangement, other than a scheme of arrangement made to all the holders of Shares and has been approved by the necessary number of holders of Shares, between our Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a compromise or arrangement and the grantee may at any time thereafter but before such time as shall be notified by our Company exercise the option to its full extent (whether vested or not) and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the grantee such number of fully paid Shares which fall to be allotted and issued on exercise of such option.

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(n) Ranking of Shares

A grantee is not entitled to vote, to receive dividends or to have any other rights of a shareholder in respect of Shares until the Option is validly exercised by the grantee, Shares are transferred to the grantee and the relevant shares are registered in the name of the grantee in accordance with the Beauty Bear Share Option Scheme. Upon exercise of an option, the Shares will rank *pari passu* with the fully paid Shares in issue and subject to the provisions of the memorandum and articles of association of our Company for the time being in force.

(o) Effect of alterations to capital

In the event of any capitalisation issue, rights issue, sub-division, consolidation of shares, or reduction of share capital of our Company, the auditors or the independent financial adviser engaged by our Company for such purpose shall determine what adjustment is required to be made to the exercise price and/or the number of shares to be issued on exercise of the options, provided that such adjustments shall give the eligible participant the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes, the "Supplemental Guidance") and any adjustments to the advantage of the eligible participants to the exercise price or to the number of Shares subject to the options must be approved by the Shareholders in general meeting, and no adjustments may be made to the extent that Shares would be issued at less than their nominal value. In addition, any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time, to the extent applicable.

(p) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option period relevant to that option;
- (ii) the date of commencement of the winding-up of our Company in accordance with the Companies Ordinance;
- (iii) the date on which the grantee ceases to be an eligible participant for any reason including gross negligence, wilful misconduct or convicted of a criminal offence; or
- (iv) the date on which the committee of our Board shall exercise our right to cancel the option at any time.

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(q) Alteration of the Beauty Bear Share Option Scheme

The terms and conditions of the Beauty Bear Share Option Scheme may be altered in any respect by resolution of our Board except that any alterations of the authority of our Directors or administrator of the Beauty Bear Share Option Scheme in relation to any alteration of the terms of the Beauty Bear Share Option Scheme shall first be approved by our Shareholders in the general meeting.

(r) Cancellation of Options

The Committee may at any time cancel Options previously granted to, but not yet exercised by a Grantee.

(s) Termination of the Beauty Bear Share Option Scheme

We may by ordinary resolution in general meeting or our Board at any time terminate the Beauty Bear Share Option Scheme. In the event of termination, no further option shall be offered but the provisions of the Beauty Bear Share Option Scheme shall remain in full force and effect. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Beauty Bear Share Option Scheme.

(t) Administration of our Board

The Beauty Bear Share Option Scheme shall be subject to the administration of the committee of our Board who has the sole and absolute right to make decision as to all matters arising in relation to the Beauty Bear Share Option Scheme or its interpretation or effect (except as otherwise provided in the rules of the Beauty Bear Share Option Scheme).

(u) Condition of the Beauty Bear Share Option Scheme

The Beauty Bear Share Option Scheme shall take effect subject to and is conditional upon the approval and adoption by a resolution of our Board.

(v) Disclosure in annual and interim reports

Our Company will disclose details of the Beauty Bear Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

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(w) Present status of the Beauty Bear Share Option Scheme

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Beauty Bear Share Option Scheme.

2.2 Restricted Share Award Scheme

Our Company adopted a restricted share award scheme (the “**RSA Scheme**”) by a resolution of our Board on April 1, 2022, a resolution of our Board on October 17, 2022 (the “**Special Resolution**”). The RSA Scheme will be subject to Chapter 17 of the Listing Rules and proposed amendments thereto which will be effective from January 1, 2023.

(a) Purposes of the RSA Scheme

The purposes of the RSA Scheme is to encourage certain Directors, employees to contribute to our Group for the long-term benefits of our Company and the Shareholders as a whole and provide our Group with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants (as defined in paragraph (d)).

(b) Administration of the RSA Scheme

The RSA Scheme shall be subject to the administration of the committee of our Board and the decision of the committee of our Board shall be binding on all parties. However, if the single, joint or cumulative exercise of the following rights materially changes the RSA Scheme in major aspects, the relevant adjustments or decisions need to be submitted to the Board for approval. The committee of our Board shall have the right to:

- (i) to select the individuals to whom a provisional award of restricted share under the RSA Scheme (“**Award(s)**”) may from time to time be granted;
- (ii) to determine the time or times of grant, and the extent, if any, of Awards granted to any one or more Participants (as defined in paragraph (d));
- (iii) to determine the number of restricted shares granted under any Award;
- (iv) to determine and modify from time to time the terms and conditions, including restrictions that are not inconsistent with the terms of the RSA Scheme, of any Award;
- (v) to amend, with the consent of the Participant (as defined in paragraph (d)), the terms of any outstanding Award at any time;
- (vi) to accelerate at any time the vesting of all or any portion of any Award;

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- (vii) to impose any limitations on Awards granted under the RSA Scheme which include but are not limited to any lock-up or repurchase mechanism;
- (viii) to appoint such agents as the committee of our Board may deem in its absolute discretion appropriate to administer the RSA Scheme;
- (ix) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the RSA Scheme and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the RSA Scheme and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the RSA Scheme; to decide all disputes arising in connection with the RSA Scheme; and to otherwise supervise the administration of the RSA Scheme; and
- (x) to make any other determination and take any other action that the committee of our Board deems necessary or desirable for the administration of the RSA Scheme.

(c) *RSA Awards*

Award gives a Participant in the RSA Scheme a conditional right when the Award vests to obtain Shares on or about the date of vesting, as determined by the committee of our Board in its absolute discretion. An Award may include, if so specified by the committee of our Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares from the date that the Award is granted to the date that it vests.

(d) *Participants in the RSA Scheme*

An Award may be made to any Director, employee or any other person that, in the opinion of the Committee in its sole and absolute discretion, will contribute materially to the successful operation of our Group.

Participants of the RSA Scheme (the "**Participants**") include any of the abovementioned person(s) who accepts an award in accordance with the terms of the RSA Scheme or any person who is entitled to any award of shares in consequence of the death of the original participant who has accepted an award of shares.

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(e) Status of the RSA Scheme

On April 1, 2022, [REDACTED] award Shares (to be adjusted to [REDACTED] upon the Capitalization Issue), representing approximately [REDACTED]% of the total number of issued Shares as of the Latest Practicable Date and equivalent to approximately [REDACTED]% of the total number of the issued Shares immediately upon completion of the [REDACTED] (without taking into account of any Shares which may be issued pursuant to the exercise of [REDACTED]), were granted to Mr. Hua, an employee of LX Technology. Save as disclosed above, as of the Latest Practicable Date, no other Award had been granted or agreed to be granted under the RSA Scheme.

(f) Term of the RSA Scheme

The RSA Scheme shall be valid and effective for the period of 10 years commencing on the adoption date of the RSA Scheme, after which period no further Awards will be granted, but the it shall not affect the subsisting rights of any selected Participants.

(g) Grant of Award

On and subject to the terms of the RSA Scheme and the terms and conditions that our Board imposes pursuant thereto, the committee of our Board shall be entitled at any time during the life of the RSA Scheme to make a grant to any Participant as the committee of our Board may in its absolute discretion determine.

A grant shall be made to an Participant by a letter and/or any such document in such form as our Board may from time to time determine (the “**Award Shares Agreement**”) and such grant shall be subject to the terms as specified in the RSA Scheme. The Award Shares Agreement shall set forth the terms of the Award, as determined by the committee of our Board, including, without limitation, the purchase price, if any, to be paid for such Shares, any restrictions applicable to the Award Shares such as continued service or achievement of performance goals, any lock-up period during which the Award shall not be sold, pledged, transferred or otherwise disposed of the length of the period of restriction (the “**Restriction Period**”), and the Participants’ right to vote and to receive dividends in respect to their respective Shares from the Award during the Restriction Period. All grants of Award shall have a period of restriction of at least one (1) years unless otherwise provided.

The total number of Shares awarded under the RSA Scheme to each Participant in any 12-month period up to the date of award exceed 1% of our Shares in issue as at the date of award shall be subject to the issue of a circular by our Company to our Shareholders and the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Participant and his/her close associates (as defined in the Listing Rules) (or his/her associates (as defined in the Listing Rules) if the Participant is a connected person (as defined in the Listing Rules)) abstaining from voting after the Special Resolution.

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(h) Awarding Shares to a director, chief executive or substantial shareholder of our Company or any of their respective associates

Any grant of Shares to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Shares). If our Board proposes to grant Shares to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of Shares awarded and to be awarded to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of our Shares in issue on the date of award of the Shares, such award of Shares will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting.

(i) Acceptance of Award

The Award must be accepted within a period of thirty (30) days, or such other period as the committee of the Board may specify from the date the Award Shares Agreement is made. The prospective recipient of an Award shall not have any rights with respect to the Shares in such Award, unless and until such recipient has complied with the applicable terms and conditions of such Award and has delivered a fully executed copy thereof to the committee of our Board.

(j) RSA Scheme Limit

No Award shall be granted pursuant to the RSA Scheme if as a result of such grant (assumed accepted), the aggregate number of Shares underlying all grants made pursuant to the RSA Scheme (excluding the Awards that have lapsed or been canceled in accordance with the rules of the RSA Scheme) will exceed 10% of the number of Shares in issue from time to time (the “**RSA Scheme Limit**”).

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(k) Restrictions on the times of award of Shares

An award of Shares may not be made after inside information has come to the knowledge of our Company until it has announced such inside information pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the SFO. In particular, no Shares may be awarded during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our annual results or our results for half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our annual results or our results for half-year, quarterly or other interim period (whether or not required under the Listing Rules), and ending on the date of actual publication of the results for such year, half-year, quarterly or interim period (as the case may be).

(l) Performance target

A Participant may be required to achieve any performance targets as our Board may then specify in the award.

(m) Rights Attached to the Awards

The RSA do not carry any right to vote at general meetings of our Company. No Participant shall enjoy any of the rights of a Shareholder by virtue of the grant of an Award pursuant to the RSA Scheme, unless and until such Shares underlying the Award are actually issued or transferred (as the case may be) to the Participant upon the vesting of the RSA and the Participant's name has been entered in the register of members of our Company as holder of such Shares. The Participants do not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares of an Award prior to the actual transfer.

(n) Vesting of restricted shares in Award

Subject to and in accordance with the RSA Scheme, the committee of our Board shall transfer to and vest in any selected Participant the legal and beneficial ownership of the Shares in Award to which such selected Participant is entitled under the relevant Award as soon as practicable after the latest of (a) the vesting date as specified in the relevant Award Shares Agreement; and (b) where applicable, the date on which the condition(s) and/or performance target(s) to be attained or paid by such selected

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Participant as specified in the relevant Award Shares Agreement have been attained or paid. The committee of our Board should give a notice in writing to the trustee confirming the satisfaction of the relevant condition(s) and/or performance target(s).

Upon the vesting of restricted Shares, the Shares granted pursuant to the RSA Scheme shall be subject to all the provisions of the Memorandum for the time being in force and shall rank *pari passu* in all respects the existing fully paid Shares in issue on the date on which those Shares are issued.

(o) *Rights on takeover*

In the event a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement as in paragraph (m)) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any restricted Shares, our Board shall, prior to the offer becoming or being declared unconditional, determine at its absolute discretion whether such restricted Shares shall vest and the period within which such restricted Shares shall vest. If our Board determines that such restricted Shares shall vest, it shall notify the Participant that the restricted Shares shall vest and the period within which the relevant Shares shall vest.

(p) *Rights on Scheme of Arrangement*

In the event a general offer for Shares by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of holders of Shares at the requisite meetings prior to the vesting of any restricted Shares which are the subjects of Award under the RSA Scheme, our Board shall, prior to such meetings, determine at its absolute discretion whether such restricted Shares shall vest and the period within such restricted Shares shall vest. If our Board determines that such restricted Shares shall vest, it shall notify the Participant that the restricted Shares shall vest and the period within which such restricted Shares shall vest.

(q) *Rights on winding-up*

In the event a notice is given by our Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company prior to the vesting date of any restricted Shares which are the subjects of Award under the RSA Scheme, our Board shall determine at its discretion whether such restricted Shares shall vest, and the period when such restricted Shares shall vest and in the latter case, the unvested Restricted Shares must be vested and effected by no later than two Business Days before the day of the proposed shareholders' meeting. If our Board determines that such restricted Shares shall vest, it shall notify the Participants that the restricted Shares shall vest and the period within which such restricted Shares shall vest.

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(r) Rights on compromise or arrangement between our Company and our members or creditors

In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph (m) above, between our Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Board shall determine at its discretion whether such restricted Shares shall vest, and the period when such restricted Shares shall vest. If our Board determines that such restricted Shares shall vest, it shall notify the Participants that the restricted Shares shall vest and the period within which such restricted Shares shall vest.

(s) Rights on a Voluntary Winding-up

In the event a winding-up order is made against our Company, or a resolution to voluntarily wind-up our Company is passed, otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of the Company pass to a successor company, an Award shall automatically lapse forthwith and all the Award Shares, to the extent not already vested, shall not vest on the relevant vesting date.

(t) Lapse or Cancellation of RSA

An Award shall automatically lapse forthwith and all the Shares in relation to the Award, to the extent not already vested, shall not vest on the relevant vesting date in the event that:

- (i) a selected Participant ceases to be an employee of our Group;
- (ii) a selected Participant died or became totally and permanently disabled and incapacitated;
- (iii) the subsidiary or invested entity by which a selected Participant is employed, ceases to be a subsidiary or invested entity of the Company (or of a member of the Group);
- (iv) a selected Participant has been convicted of a criminal offence involving dishonesty and integrity;
- (v) the committee of our Board, at its absolute discretion, determines that a selected Participant (other than a Selected Participant who is an employee of our Group) or his/its associates (i) has committed any breach of any contract entered into between the selected Participant or his associate on one part and any member of the Group or any Invested Entity on the other part; or (ii) the selected Participant has committed any act of bankruptcy or has become

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insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (iii) the selected Participant could no longer make any contribution to the growth and development of any member of the Group or the invested entity by reason of the cessation of its relationship with the Group or the invested entity or by any other reasons whatsoever; or

- (vi) a winding-up order is made against our Company, or a resolution to voluntarily wind-up our Company is passed, otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of the Company pass to a successor company.

(u) Reorganization of Capital Structure

In the event of an alteration in the capital structure of our Company whilst any RSA has not vested by way of capitalisation issue, rights issue, subdivision or consolidation of shares, reduction of the share capital of our Company or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange such corresponding alterations (if any) shall be made to the number and/or nominal amount of Shares underlying the unvested restricted Shares which are the subject of any or all Awards made under the RSA Scheme. In the event of the aforesaid adjustment, the auditors or an approved independent financial adviser shall certify in writing, either generally or as regard any particular, at the request of our Company, to have in their opinion, fairly and reasonably satisfied the requirement that such adjustments give a Participant the same proportion (or rights in respect of the same proportion) of the share capital of our Company as that to which that Participant was previously entitled. The capacity of the auditors of our Company from the time to time or the approved independent financial adviser in this paragraph is that of experts and not of arbitrators and their certification shall, in absence of manifest error, be final and binding on our Company and the Participant. The costs of the auditors or the approved independent financial adviser shall be borne by our Company.

(v) Alteration of the RSA Scheme

The RSA Scheme may be amended by the committee of our Board at its sole discretion, provided that no alteration or variation shall be made which will adversely affect any rights of any Participant with respect to an Award granted to such Participant immediately prior to such amendment.

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(w) Termination of the RSA Scheme

Our Company by ordinary resolution in general meeting or our Board may at any time, in its sole and absolute discretion, terminate the operation of the RSA Scheme and in such event no further Awards shall be granted but in all other respects the provisions of the RSA Scheme shall remain in full force and effect. Any RSAs which are granted during the life of the RSA Scheme but remain unvested shall continue to be eligible for vesting and transfer in accordance with their terms and conditions of allotment and issue after the termination of the RSA Scheme.

E. OTHER INFORMATION

1. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

2. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor will receive an aggregate fee of US\$800,000 for acting as the sponsor for the [REDACTED].

The Sole Sponsor has made an application on our Company’s behalf to the Stock Exchange for the approval for the [REDACTED] of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this document (including any Shares which may be issued pursuant to the exercise of the [REDACTED]). All necessary arrangements have been made for the Shares to be admitted into CCASS.

3. Preliminary expenses

The preliminary expenses incurred and paid by our Company relating to the incorporation of our Company were approximately US\$21,100.

4. No material adverse change

Saved as disclosed in the section headed “Financial Information – No Material Adverse Change”, our Directors confirm that there has been no material adverse change in our Group’s financial or trading position since June 30, 2022 (being the date on which the latest audited consolidated financial information of our Group was prepared).

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5. Promoter

Our Company has no promoter. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

6. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.13% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *Cayman Islands*

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of Shares.

(c) *Consultation with professional advisors*

Intending holders of the Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the [REDACTED] will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

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7. Qualifications and consents of experts

The following are the qualifications of the experts who have given opinions or advice

Name	Qualifications
Haitong International Capital Limited	A licensed corporation under the SFO to conduct Type 6 (Advising on corporate finance) regulated activities (as defined under the SFO)
Deloitte Touche Tohmatsu	Certified public accountants and Registered Public Interest Entity Auditor
Maples and Calder (Hong Kong) LLP	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Legal advisor to our Company as to PRC laws
China Insights Consultancy	Industry Consultant

Each of the experts named above has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports, letters, opinions, summaries of opinions and/or references to its names included herein in the form and context in which they respectively appear.

8. Interests of experts in our Company

None of the persons named in “– 7. Qualifications and consents of experts” above is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

9. Binding effect

This document shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

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10. Miscellaneous

- (a) Within the two years immediately preceding the date of this document:
 - (i) save as disclosed in “History, Reorganization and Corporate Structure” in this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and
 - (iv) no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of our subsidiaries;
- (b) no founder, management or deferred Shares nor any debenture in our Company or any of our subsidiaries have been issued or agreed to be issued;
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;
- (d) the principal register of members of our Company will be maintained in the Cayman Islands by [REDACTED] and a branch register of members of our Company will be maintained in Hong Kong by [REDACTED]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (e) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (f) our Directors have been advised that under Cayman Islands Companies Act the use of a Chinese name by our Company in conjunction with its English name does not contravene the Cayman Islands Companies Act;
- (g) there is no arrangement which future dividends are waived or agreed to be waived;
- (h) our Company has no outstanding convertible debt securities or debentures; and

