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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)

(Stock Code: 2436)

KEY FINDINGS AND RESULTS OF INDEPENDENT INVESTIGATION AND INTERNAL CONTROL REVIEW

References are made to the announcements of LX Technology Group Limited (the “**Company**”) dated 31 March 2023, 28 April 2023, 4 May 2023, 5 May 2023, 11 May 2023 and 21 June 2023 in relation to, inter alia, (i) suspension of trading; (ii) delay in publication of annual results for the year ended 31 December 2022 and delay in despatch of annual report; (iii) change of auditor; (iv) discloseable transaction; (v) resumption guidance; and (vi) quarterly update on status of resumption (the “**Announcements**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements unless otherwise specified.

As disclosed in the announcement of the Company dated 11 May 2023, the resumption conditions include, among others, that the Company must (i) conduct the Independent Investigation into the audit issues raised in the March 26 Letter, announce the findings and take appropriate remedial actions; and (ii) conduct the Independent Internal Control Review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules.

This announcement sets out the key findings of the Independent Investigation and the Internal Control Review.

BACKGROUND

On 20 March 2023, Deloitte, the former auditor of the Company (the “**Former Auditor**”) expressed its concerns on the Matter, which relates to the Agreements entered into by the Company and Fund Company A and Fund Company B (collectively, the “**Fund Companies**”), respectively, regarding the subscription of two redeemable principal and return guaranteed Money Market Funds with a total amount of approximately HK\$280 million.

On 26 March 2023, the Former Auditor issued the March 26 Letter to the Audit Committee in relation to its concerns and observations in respect of the Matter.

INDEPENDENT INVESTIGATION

The Board formed an independent committee (the “**Independent Committee**”) and appointed Grant Thornton Advisory Services Limited (the “**Independent Investigator**”) to conduct the Independent Investigation. As at the date of this announcement, the Independent Investigator has issued its report of findings of the Independent Investigation (the “**Independent Investigation Report**”) to the Independent Committee. Details of the Independent Investigation Report are set out below:

Scope of the Independent Investigation

The scope of the Independent Investigation mainly includes:-

- (i) commercial substance and business rationale of the Subscriptions;
- (ii) due diligence and selection/deliberation process for entering into the Subscriptions;
- (iii) background and information of the Fund Companies/Money Market Funds to verify validity of the Subscriptions;
- (iv) whether the source of funding for the Subscriptions were from proceeds (the “**IPO Proceeds**”) of the initial public offering of the Company on 24 November 2022 (the “**IPO**”) and its implication;
- (v) documents evidencing the Redemptions and receipt of redemption monies by the accounts of the Group; and
- (vi) anomalies identified in the audit confirmation process by the Former Auditor.

Major Investigation Procedures

The major investigation procedures conducted by the Independent Investigator include, but are not limited to, the following:

- (i) obtaining and reviewing relevant documents and correspondences relating to the Subscriptions (including but not limited to the Agreements, correspondences between the Group and the Fund Companies, internal records of the Company, bank documentation and Subscriptions deliverables);
- (ii) reviewing the internal control policies and procedures of the Group in relation to contract management, fund management, finance management and conducting interviews with the relevant personnel of the Group responsible for carrying out such procedures;
- (iii) conducting interviews with relevant personnel of the Group (including Directors, management and relevant employees) and relevant external parties to understand, among others, the commercial substance and business rationale of entering into the Subscriptions and background information of the Fund Companies;
- (iv) issuing independent confirmation letters to the Fund Companies to verify the relationships, nature and payment in respect of the Agreements and visiting relevant banks to obtain bank statements to confirm details of the transactions; and
- (v) conducting independent searches on the Fund Companies and relevant personnel to ascertain their relationships with the Company, management and Shareholders (if any) and visiting registered office of the Fund Companies to confirm their business operations.

During the performance of the above procedures, there were certain limitations encountered by the Independent Investigator. Please refer to the section headed “Limitations of the Independent Investigation” below for details.

Key Findings of the Independent Investigation

Based on the major investigation procedures as set out above, key findings of the Independent Investigation are as follows:

(i) *Background*

After the IPO, the Company performed cash management on its idle cash. Prior to that and after submission of the listing application of the Company, founders of the Fund Companies (the “**Fund Companies Founders**” being the shareholders and directors of the two Fund Companies) approached the Company and introduced the Fund Companies and the Money Market Funds. The Company then evaluated the Fund Companies and concluded that the Fund Companies Founders had extensive experience, having worked in the major state-owned policy banks and having a prudent management style, their network of contacts cover potential customers of the Company and that the Money Market Funds were principal and return guaranteed, with high flexibility in redemption and reasonable returns similar to saving deposits, and therefore entered into the Agreements with the Fund Companies.

(ii) *Commercial substance and business rationale of the Agreements*

During the process of the IPO, the Company considered that idle cash management was necessary after its listing. After internal discussions, the Company determined idle cash management should include features of guaranteed principal and return, flexibility in withdrawal, and a reasonable rate of return.

After submission of the listing application of the Company, the Fund Companies Founders approached the Company and introduced the Fund Companies and the Money Market Funds. The Fund Companies Founders met Mr. Hu Zuoxiong (“**Mr. Hu**”), an executive Director, chief executive officer of the Company and chairman of the Board back in 2019, during the early development stage of the Company. The Fund Companies Founders were working for different major state-owned policy banks at the material time. The Company was seeking bank loans from these banks, but due to the size of the Company at the time, it was incompatible with the banks’ lending requirements and the Company was unable to secure the bank loans. Nonetheless, the Fund Companies Founders provided valuable debt financing advices to the Company.

Having knowledge about the Fund Companies Founders’ experience gained in the major state-owned policy banks, coupled with their prudent working style in scrutinising debt arrangements and extensive network of contacts with domestic enterprises which were clients of the banks, the Company saw an additional benefit in cooperating with the Fund Companies which might possibly introduce potential

customers to the Company. Therefore, Mr. Hu asked his assistant to obtain additional information regarding the Fund Companies and the Money Market Funds.

The Money Market Funds featured US treasury products as underlying assets with low-risk exposure, offered flexible withdrawal terms (5 working days' notice period for redemption and allow redemption after one month of the subscriptions of the Money Market Funds), and a reasonable rate of return (1.8% per annum). After having conducted due diligence and considered the risks, flexibility, and rate of return of the Money Market Funds, the Company were of the view that the Money Market Funds were similar to bank saving deposits. The Company obtained information from the two banks the Company maintained accounts with in Hong Kong and understood the interest rates of the bank saving deposits were about 0.4% per annum at the relevant time. The Company considered the interest rates of bank saving deposits and one-month time deposits of the banks and took into consideration the situation if the Company withdraws fund within a month period, the interest rate of the one-month time deposits would be the interest rate of bank saving deposits. As such, the Company concluded that the Money Market Funds offered reasonable guaranteed return and were higher than the interest rate of bank saving deposits at the material time, and given the flexible withdrawal terms, the Company considered the Money Market Funds offered by the Fund Companies align well with its cash management objectives and subscribed to the Money Market Funds.

Key findings in respect of the Money Market Funds also includes:

- a. Value Investment Fund SP and Flagship Fund SP were segregated portfolios operated by the Fund Companies and the segregated portfolios were not legal entities, as such, the Agreements needed to be signed between the Company with the Fund Companies;
- b. the Company subscribed for shares of the Fund Companies in the Agreements, and the subscription monies would be used in the segregated portfolios operated by the Fund Companies;
- c. the Company subscribed the Money Market Funds for idle cash management. The rates of return in the Agreements were negotiated between the contractual parties. The Company required that the Money Market Funds should be principal and return guaranteed with highly flexible withdrawal terms, thus the Fund Companies could only invest in risk-free assets and provide relatively lower rates of return to the Company;

- d. the business model of the Fund Companies was to use subscription monies from investors to invest in US treasury bonds and cash to generate income, and provided investors with the fixed return as agreed. The return earned by the Fund Companies was the difference between the return on underlying investment assets and agreed return to investors, and therefore, the rates of return as stipulated in the Agreements were not linked to the return on the underlying assets; and
- e. the Company has confirmed that there would be no redemption of Subscriptions within the first month after the Subscriptions, thus both the Company and the two Fund Companies have not included any early redemption penalty clauses in the Agreements.

(iii) Due diligence and selection/deliberation process for entering into the two Subscriptions

As set out in the paragraph headed “*Commercial substance and business rationale of the Agreements*” above, due to the past relationships with the Fund Companies Founders, after having been approached and introduced to the Fund Companies and the Money Market Funds, Mr. Hu instructed his assistant to conduct due diligence procedures before entering into the Agreements. In addition to the due diligence on the Fund Companies, Mr. Hu instructed the chief financial officer of the Company to compare the rates of return of the Money Market Funds and bank saving deposit rates of the banks that the Company maintained accounts in Hong Kong. After the internal discussion about the details of the due diligence work and the comparison with bank saving deposit rates, the flexibility of withdrawal and risk of the Money Market Funds, Mr. Hu concluded that it would be in the interest of the Company to subscribe for the Money Market Funds. After Mr. Hu’s assistant further negotiated and finalized the terms of the Agreements, the chief financial officer initiated internal approval procedures, and Mr. Hu approved the Subscriptions and the entering into of the Agreements by the Company.

The Independent Investigator found that there were room for improvements in certain internal controls measures over the process of entering into the Agreements, which included:

- a. there was no written policy and procedures in relation to idle cash management of the Company;
- b. there was no proper segregation of duties in respect of the initiation of approval procedures for the entering into of the Agreements; and

- c. the due diligence performed by the Company on the Fund Companies were not comprehensive enough. Although the Company had obtained information regarding the Fund Companies, which included the experiences of the Fund Companies Founders in investment management, fund sizes, underlying assets, licenses held, subscription methods, shareholding structures and their lists of shareholders and directors, and the Company obtained documents including the memorandum and articles of associations, certificates of incorporation, registers of members, private placing memorandums, and the licenses owned by the Fund Companies to verify the information. The Company did not obtain any documentation in relation to the past performance of the funds, fund sizes and directors' investment management experiences for verification. The Company also did not conduct any background check in relation to the investment manager and inquire the role of the investment manager of the Fund Companies.

(iv) Background and information of the Fund Companies/Money Market Funds to verify validity of the Subscriptions

The Fund Companies were both incorporated in the Cayman Islands on 20 January 2022 and were granted with licenses from the Cayman Islands Monetary Authority since 23 November 2022. The Fund Companies Founders have worked for major state-owned policy banks prior to the establishment of respective Fund Company. The size of funds under management by both Fund Companies amounted to USD300 million or above, and their clients were mainly institutional investors.

The Fund Companies confirmed they had invested in US treasuries and maintained cash by using the Company's subscriptions monies. The credit ratings of the US treasuries invested by the Fund Companies were graded AA, AAAu, Aaa, and AAAu before their maturity, pursuant to information from independent third party rating agencies.

Furthermore, according to the results of the independent background search obtained from third party search providers, there were no evidence of relationship between the shareholders and directors of both Fund Companies or the Directors or senior management of the Company.

(v) Whether the source of funding for the Subscriptions were from the IPO Proceeds and its implication

The Company paid subscription monies to the Fund Companies with idle cash of the Group. The Company did not separately manage the IPO Proceeds from its non-IPO Proceeds cash balance.

Prior to the payment of Subscription A on 27 November 2022, the Company had approximately HK\$490 million cash balance, which comprised approximately HK\$350 million IPO Proceeds and HK\$140 million non-IPO Proceeds. As such, payment of Subscription A of approximately HK\$228 million was partially funded by the IPO Proceeds. Prior to the payment of Subscription B on 4 December 2022, the Company had cash balances of approximately HK\$210 million, assuming payment of Subscription A was funded entirely by IPO Proceeds, payment of Subscription B can be funded entirely by non-IPO Proceeds cash balance.

Although the Company considered at the relevant time that the deployment of idle cash in the Money Market Funds was purely intended to be for the purpose of idle cash management rather than a commercial investment or an acquisition, the Independent Investigator noted that idle cash management through the Subscriptions may not constitute one of the intended use of the IPO Proceeds as disclosed in the prospectus of the Company dated 14 November 2022 (the “**Prospectus**”). The Company should have managed its idle cash in accordance with the Prospectus disclosure, i.e. to place idle cash with (i) commercial banks licensed in Hong Kong or the PRC and/or (ii) other recognised financial institutions (as defined in the Securities and Futures Ordinance in Hong Kong). As such, using the idle cash for the Subscriptions of the Money Market Funds registered in the Cayman Islands was inconsistent with the idle cash management disclosure in the Prospectus, and the Company should have made appropriate disclosure at the time of Subscriptions. It appears to be a lack of clear policies and procedures in respect of idle cash management, IPO Proceeds management and relevant significant matter reporting and disclosure procedures, and there is room for improvement in respect of such internal control policies.

(vi) Documents evidencing the Redemptions and receipt of redemption monies by the accounts of the Group

The Company made formal redemption requests to the Fund Companies on 24 March 2023 by email and signed written redemption application forms. The Company received the redemption monies from both Fund Companies on 31 March 2023, and the amount of redemption monies received was consistent with the 1.8% per annum rate of return as agreed in the Agreements. To mitigate the risk of potential enquiries or account freezes on the loan provider banks or other bank accounts of the Company in daily use, the Company opened a new offshore account with Ping An Bank Co., Ltd. for receiving the redemption monies.

(vii) Anomalies identified in the audit confirmation process by the Former Auditor

The Former Auditor mentioned in its correspondences with the Company that (i) the Company did not provide the full names of the recipients from the Fund Companies to the Former Auditor for audit confirmation purpose; (ii) the Company emphasised the audit confirmations shall be sent by S.F. Express Co., Ltd. (“**SF Express**”); (iii) the Fund Companies do not appear to be situated at the Hong Kong addresses stated on the audit confirmations reverted by the Fund Companies when the Former Auditor performed site visits at such given addresses; and (iv) the original copy of the audit confirmations from the Fund Companies had not been received by the Former Auditor.

With regards to such anomalies, the Company advised that (i) relevant surnames of the contact persons have been provided and full name of the recipient of counter parties would not be requested in correspondences the Company handled on a day-to-day basis; (ii) given the tight response timeframe requested by the Former Auditor, the Company considered that SF Express was efficient and reliable in terms of speed of delivery. The Company reiterated that the Former Auditor did not raise any concern on the lack of recipients’ full names and the suggestion of usage of SF Express during the audit process; (iii) the Hong Kong address of Fund Company A was the address of its solicitor, who provides general agency services; while the Hong Kong address of Fund Company B was its business partners’ address as it did not rent an office in Hong Kong due to the COVID-19 epidemic. The Independent Investigator conducted site visits to the registered bank address in Shanghai and commercial offices address in Beijing offices of the Fund Companies to verify their existence, and they were found to be consistent with the addresses so provided; and (iv) it was understood from the Fund Companies that both electronic and original copies of the confirmations had been provided to the Former Auditor.

(viii) Conclusion

Excluding uncertainties due to investigation limitations as set out in the paragraph headed “Limitations of the Independent Investigation” below, through various discovery and inquiry procedures, the Independent Investigator performed verification process on the supporting documents and information provided by the Company. The Independent Investigator did not find any material inconsistencies between the supporting documents provided by the Company and their findings or search results, which is also consistent with the statements it obtained from the interviewees in connection with the Subscriptions.

Limitations of the Independent Investigation

Limitations of the Independent Investigation which may have limited the extent of the investigation are set out below:

- a. as the Independent Investigator was not empowered with compulsory force/right of investigation, the Independent Investigation largely relied on the voluntary cooperation of the Company as well as other relevant third parties. The Independent Investigator was not in a position to fully verify the representations made by the interviewees or ensure that the investigation findings were without errors. Except those documents which are marked as verified in the Independent Investigation Report, the Independent Investigator also cannot verify the authenticity of the all the documents provided;
- b. an independent third party agency was engaged to conduct searches on the Directors, senior management of the Company and the personnel of the Fund Companies. Based on the feedback of the third party agency, it was unable to provide search results on the stewardships or shareholdings of the individuals in companies incorporated in the Cayman Islands;
- c. the Independent Investigator was unable to check the credit ratings of certain debt instruments included in the investment statements provided by the Fund Companies from the credit rating agencies as these debt instruments have matured; and
- d. the Independent Investigator was unable to conduct interviews with the investment manager of the Fund Companies.

The Board's View

The Board has reviewed the content and the findings of the Independent Investigation Report. The Board is of the view that the Independent Investigator has investigated into the Matters raised by the Former Auditor and adequately addressed the concerns raised by the Former Auditor to the extent that is practicable, despite the limitations of the Independent Investigation as set forth above, the findings of the Independent Investigation in the Independent Investigation Reports are reasonable and acceptable. The Board noted certain internal control weakness of the Group identified in the Independent Investigation Report and had implemented various internal control and corporate governance improvement measures along with the suggestions and recommendations provided by the internal control consultant as further set out below in this announcement.

The Board also noted the idle cash management by way of Subscription after listing was not entirely consistent with the idle cash management disclosure in the Prospectus due to the inadvertent oversight caused by the unfamiliarity of the management with the accounting concepts of cash and cash equivalents and relevant implications at that time under the Listing Rules and wishes to clarify that there was no intentional change in the use of IPO Proceeds when the Subscriptions were made. The Company had taken immediate steps to send redemption notices and redeemed the full amount of the subscription monies together with agreed returns on 31 March 2023. After having consulted its advisers and seeking guidance from the Stock Exchange, the Company also made disclosure in respect of the Subscriptions in accordance with the requirements of the Listing Rules on 4 May 2023. In addition to the remedial measures taken to improve its internal control system as recommended by the internal control consultant as set out below, the Board also enhanced its training procedures to require all Directors, senior management and core team of employees handling disclosure related matters to engage in regular trainings in respect of the Listing Rules. If the Company intends to change its use of IPO Proceeds in the future, it will comply with all relevant Listing Rules requirements.

Independent Committee’s Assessment

The Independent Committee has reviewed and considered the Independent Investigation Report. Having examined the letters from the Former Auditor, the Independent Committee is of the view that the Independent Investigation covered the issues raised by the Former Auditor and the Independent Investigator had performed appropriate procedures in respect of the Independent Investigation. The Independent Committee noted (i) internal control weaknesses which the Group should address and remedial actions taken by the Company as stated above and as further elaborated in the section headed “Internal Control Review” of this announcement below; and (ii) relevant disclosure in respect of the Subscriptions and the subsequent redemptions made in accordance to Chapter 14 of the Listing Rules on 4 May 2023. The Independent Committee considers that the issue in respect of the Subscription has been adequately addressed.

INTERNAL CONTROL REVIEW

The Independent Committee has appointed SHINEWING Risk Services Limited (the “**IC Consultant**”) to conduct the Independent Internal Control Review on the internal control policies and procedures of the Group with a focus on the Matter and provide corresponding recommendations for rectification in order to improve the Group’s internal control system.

The IC Consultant has completed the Independent Internal Control Review, the follow-up review on the remedial measures adopted by the Company, and has issued a report of its findings (the “**Internal Control Report**”).

According to the Internal Control Report, the IC Consultant identified four key internal control weaknesses (among which, one was considered as high risk with the remaining three as medium risk) in respect of the Subscriptions which are summarised as follows:

Key Findings	Rectification Recommendations	Company's response and remedial status
<p>1. Idle cash management</p>		
<p>a. Policy: The Company has not established idle cash management policy. Relevant staff may not have clear understanding as to scope of usage of idle cash and reporting procedures; and management may not effectively monitor relevant matters on a timely basis.</p>	<p>a. The Company should establish idle cash management policies and procedures, specifying the scope of usage, comparison of different products/ plans, due diligence scope, decision making and approval procedures, subsequent daily management, follow up and supervision procedures and have relevant policies and procedures approved by management.</p>	<p>The Company has established internal control policies and procedures for idle cash management and has also established internal control policies and procedures for investment management. The new policies and procedures were approved by management and circulated to relevant staff.</p>
<p>b. Due diligence: Although the Company had obtained information regarding the Fund Companies, which included the experiences of the Fund Companies Founders in investment management, fund sizes, underlying assets, licenses held, subscription methods, shareholding structures and their lists of shareholders and directors and the Company obtained documents including memorandum and articles of associations, certificates of incorporation, registers of members, private placing memorandums, and the licenses owned by the Fund Companies to verify the information. The Company did not obtain any documentation in relation to the past performance of the funds, fund sizes and directors' and fund manager's investment management experiences for verification.</p>	<p>b. The Company should obtain comprehensive background documentation, including but not limited to the past performance of the funds, fund sizes and directors' and fund managers' investment management experiences in order to fully assess the Money Market Funds.</p>	

Key Findings	Rectification Recommendations	Company's response and remedial status
<p>c. Approval: The Subscriptions were initiated and approved by Mr. Hu, the executive Director, chief executive officer of the Company, and chairman of the Board, and was not reported to the Board, and due to inadvertent oversight and particularly insensitivity and unfamiliarity of the management with the relevant requirement of the Listing Rules, the Company did not identify the Subscriptions would constitute notifiable transaction of the Company under the Listing Rules.</p>	<p>c. Prior to the Subscriptions, the Company should ensure the transaction is approved by relevant management of the Company pursuant to the transaction amount and level of authority required for approval. A limit should be set at which the matter ought to be and reported to the Board/investment committee (if any), and the relevant transaction can only be executed after proper approval by the management or the Board or the investment committee (if any).</p> <p>Management should communicate with the chief financial officer and company secretary regarding relevant transactions, to ensure compliance with the Listing Rules, including disclosure obligations.</p>	
<p>d. Supervision: No written report or analysis were made by the finance department on the performance of the Money Market Funds.</p>	<p>d. Management should produce periodic reports regarding the operation of the funds/products subscribed by the Company and submit the reports to the relevant management of the Company/investment committee (if any). The chief financial officer should report any material event regarding the funds/products to the Board/investment committee (if any) for formulating corresponding strategies.</p>	

Key Findings	Rectification Recommendations	Company's response and remedial status
2. IPO Proceeds management		
a. The Company has not established internal control policies for the deposit, management and utilisation of IPO Proceeds.	a. The Company should establish relevant policies and procedures for the deposit, management and utilisation of the IPO Proceeds, and submit the final draft of the policies to the relevant management to approve.	The Company has established internal control policies and procedures for usage, management and supervision of IPO proceeds, which includes, amongst others, manage of the deposit, handling, approval and utilisation of fund raised, procedures and requirement for the change of use of IPO Proceeds etc. The new policies and procedures were approved by management and circulated to relevant staff.
b. No procedure is established for approving and reporting the inflow and outflow of funds concerning the use of IPO Proceeds	b. The Company should also consider establishing procedures for the approval of inflow and outflow of funds concerning the use of IPO Proceeds, which requires approval from management prior to execution of any fund transfers.	Finance department has also reviewed and reported the actual use of the IPO Proceeds on monthly basis. Such report has been submitted to the management for review.
c. Except for annual reporting, there is no monthly/quarterly analysis on the actual use of IPO Proceeds by the finance department and has not reported to the Board	c. The management should consider requiring the finance department to regularly summarise and report the actual use of IPO Proceeds to the Board to ensure that the Directors are aware of the use of the IPO Proceeds.	

Key Findings	Rectification Recommendations	Company's response and remedial status
<p>3. Significant matter reporting policy</p>	<p>The Company should establish a detailed written policy and procedure on determination of significant matters, its reporting procedures and disclosure procedures, and circulate to relevant employees.</p>	<p>The Company has established the “Significant Matters Reporting Policy”, the “Notifiable Transaction Management Measures” and the “Continuing Obligations Management Measures” to govern the identification, reporting and disclosure of significant matters. The new policies and procedures were approved by management and circulated to relevant staff.</p>
<p>4. Compliance for notifiable transaction</p>	<p>The Company should establish a written policy for notifiable transactions under Chapter 14 of the Listing Rules, and have relevant policy approved by the management and circulate to relevant employees.</p> <p>Management should appoint a responsible personnel to check and review the execution of such management policy and make recommendations.</p>	<p>The Company will notify its compliance adviser and its legal adviser prior to entering into any transaction as defined in Chapter 14 of the Listing Rules according to its existing policy and has established “Notifiable Transaction Management Measures”, stipulating details including approval procedures and compliance requirements under the Listing Rules with regard to notifiable transactions. The new policy and procedures was approved by management and circulated to relevant staff.</p> <p>The chief financial officer and company secretary of the Company will examine and provide recommendations on the implementation of the management system of the notifiable transaction on a regular basis.</p>

The Internal Control Report also mentioned seven other general low risk weaknesses of the Group which are summarised as follows:

1. Succession plan. The Company has not established clear succession plan for senior management and Directors and there is a need to have such succession plan.

Company's response: The Company has established succession plan which include the selection criteria and process of successor, training and promotion of successor. Such plan has been approved by the management and will be regularly reviewed and updated when necessary.

2. Whistle blowing policy. The Group has existing policy for anti-bribery and anti-corruption and has stated contact details for reporting bribery and corruption in its website and service contracts. However, the existing policy is not comprehensive enough. The Company should establish a detailed policy which clearly lists out the reporting channel, scope and confidentiality, etc. and specify a designated management for handling relevant channel of communication to facilitate communication between stakeholders and the Company. The responsible person should conduct timely investigation, follow up actions and make proper documentation of relevant incidents.

Company's response: The Company has updated the existing policy for anti-bribery and anti-corruption, set up specific email address for reporting of bribery and corruption, clearly stated investigation reporting and procedures and preservation of confidentiality of relevant whistle blowers. The new policy was approved by management and circulated to staff of the Group.

3. Accounting system authority and chart of accounts. The finance department did not regularly review on the access rights of each user in the accounting system to confirm the appropriateness of the user rights. In addition, the finance department did not regularly review the chart of accounts. Management should consider requiring the finance department to regularly review the access rights of each user in the accounting system and maintain record, such as the date of review, results, etc. and review the chart of accounts on a regular basis and maintain a written record of the review for audit trail.

Company's response: The finance department has conducted regular review on the access right and chart of accounts in the accounting system. The review result has been documented and submitted to the management.

4. Investment management system. The Company has not established policy and procedures for investment activities, which should cover initial screening and analysis, investment authority and procedures, investment execution procedures, subsequent day-to-day management, transfer of investments and redemption and significant matter reporting and disclosure. Relevant policy and procedures shall be submitted to relevant management authority for approval.

Company's response: The Company has established new investment policies and procedures as suggested. The new policies and procedures were approved by management and circulated to relevant staff.

5. Corporate governance. The Company has not provided the Board with monthly updates on its business and financial performance and the Company did not have policies for the Directors and committees of the Board when they need to seek professional advice, including the choice of professional advisers and appointment procedures. The Company should provide monthly updates to the Board as suggested under the Corporate Governance Code set out in Appendix 14 to the Listing Rules and establish procedures for its directors and committees when they need to seek professional advice from independent adviser.

Company's response: The Company has commenced circulation of such monthly reporting information. The Company has already built in the terms and reference of each of the Board committees on the right of seeking professional advice from independent adviser. The Company has also adopted separate policy for the procedures in seeking professional advice. The new policies and procedures were approved by management.

6. Disclosure obligations. The Company has already established the "Information Disclosure Management Policy" and had established procedures in relation to compliance requirements under Chapter 13 of the Listing Rules. However, relevant policy and procedures in relation to compliance requirements under Chapter 13 of the Listing Rules are not detailed enough to specify details of the mechanisms to ensure completeness, accuracy and timeliness of disclosures in relation to Chapter 13 of the Listing Rules. The Company shall supplement the existing internal control policies to ensure completeness, accuracy and timing of disclosures will satisfy requirements of the Listing Rules.

Company's response: In addition to the relevant policies in place, the Company has engaged company secretarial service provider, compliance adviser and legal adviser to ensure compliance with relevant requirements. The Company has established the "Continuing Obligations Management Measures" to expand its existing policies and procedures to ensure the compliance with all relevant requirements under Chapter 13 of the Listing Rules. The new policies and procedures were approved by management and circulated to relevant staff.

7. Connected transactions. The Company has established the “Connected Transaction Management Policy”. However, the existing policy does not specify detailed procedures for (i) investigation and declaration as a connected person of the Company; (ii) confirmation and update of the connected person list; (iii) responsible department in identifying, handling and approving connected transactions and its duties; and (v) reporting of connected transactions by subsidiaries. The Company shall ensure compliance with all relevant requirements of the Listing Rules by enhancing the existing internal control policy and circulating enhanced policies to relevant employees.

Company’s response: The Company has enhanced its “Connected Transactions Management Policy” and procedures to ensure compliance with the Listing Rules. The enhanced policies and procedures were approved by management and circulated to relevant staff.

Follow Up Procedures and Results of the Internal Control Review

The Company has taken all of the advices and recommendations from the Independent Internal Control Review completed by the IC Consultant and adopted, revised or enhanced, as the case maybe, the relevant policies and procedures of the Group, and the IC Consultant had performed a follow-up review after the Group has taken the relevant remedial actions. Having reviewed the results of the Internal Control Review, the IC Consultant has not identified any material internal control weakness after the follow up review. The IC Consultant is of the view that, nothing has come to their attention that would reasonably cause them to doubt on the adequacy and effectiveness of the enhanced internal control system of the Group according to the samples and documents received from the Group.

Independent Committee’s Assessment

Having considered the Internal Control Report and the remedial actions taken by the Company, both the Independent Committee and the Board are of the view that the remedial measures implemented by the Company are adequate and sufficient to address the key findings of the Internal Control Review. The Company will continue to monitor the effectiveness of the Group’s internal control systems and procedures so as to meet its obligations under the Listing Rules and ensure reasonable and adequate internal control policies and procedures are in place and commensurate with its business operations.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange was halted with effect from 2:57 p.m. on 23 March 2023 and will continue to be suspended, pending the fulfilment of the Resumption Guidance.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

By order of the Board
LX Technology Group Limited
Hu Zuoxiong
Chairman

Hong Kong, 14 July 2023

As at the date of this announcement, the Board comprises Mr. Hu Zuoxiong as Chairman and executive Director, Mr. Chen Xiuwei and Mr. Cao Weijun as executive Directors, Mr. Li Jing as non-executive Director, and Mr. Kam Chi Sing, Ms. Xu Nailing and Mr. Yao Zhengwang as independent non-executive Directors.