ANNUAL REPORT

2022

凌雄科技集團有限公司
LX Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2436

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Hu Zuoxiong
Mr. Chen Xiuwei
Mr. Cao Weijun

Non-executive Director
Mr. Li Jing

Independent Non-executive Directors
Mr. Kam Chi Sing
Ms. Xu Nailing
Mr. Yao Zhengwang
(appointed with effect from 11 April 2023)
Ms. Zhao Jinlin (resigned with effect from 11 April 2023)

AUDIT COMMITTEE

Ms. Xu Nailing (Chairlady)
Mr. Kam Chi Sing
Mr. Yao Zhengwang
(appointed with effect from 11 April 2023)
Ms. Zhao Jinlin (resigned with effect from 11 April 2023)

REMUNERATION COMMITTEE

Mr. Yao Zhengwang (Chairman)
(appointed with effect from 11 April 2023)
Ms. Zhao Jinlin (Chairlady)
(resigned with effect from 11 April 2023)
Mr. Hu Zuoxiong
Ms. Xu Nailing

NOMINATION COMMITTEE

Mr. Hu Zuoxiong (Chairman)
Ms. Xu Nailing
Mr. Yao Zhengwang
(appointed with effect from 11 April 2023)
Ms. Zhao Jinlin (resigned with effect from 11 April 2023)

JOINT COMPANY SECRETARIES

Mr. Liu Yan
Ms. Cheung Ka Lun Karen

AUTHORISED REPRESENTATIVES

Mr. Hu Zuoxiong
Mr. Liu Yan

ALTERNATE AUTHORISED REPRESENTATIVE

Ms. Cheung Ka Lun Karen

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

501, 5th Floor
Cuilin Building
10 Kaifeng Road
Maling District, Meilin Street
Futian District
Shenzhen
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
17/F
Far East Finance Centre
16 Harcourt Road
Hong Kong

AUDITOR

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
23/F, Tower 2, Enterprise Square Five
38 Wang Chiu Road, Kowloon Bay
Kowloon
Hong Kong

COMPLIANCE ADVISOR

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

LEGAL ADVISOR

As to Hong Kong Laws
Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China Limited
Shenzhen Branch
International Financial Building
No. 2022 Jianshe Road
Luohu District
Shenzhen
Guangdong
China

China Merchants Bank
Shenzhen Branch
China Merchants Bank Shenzhen
Branch Building
No. 2016 Shennan Boulevard
Futian District
Shenzhen
Guangdong
China

STOCK CODE

2436

WEBSITE

www.bearrental.com

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

AGM	the annual general meeting of the Company to be convened and held on 25 August 2023
Articles or Articles of Association	the second amended and restated articles of association of the Company (as amended from time to time)
Audit Committee	the audit committee of the Board
associate(s)	has the meaning ascribed thereto under the Listing Rules
Bear Family	Bear Family Technology Limited, a company incorporated in the BVI with limited liability on 29 October 2021 and one of our Controlling Shareholders
Beauty Bear	Beauty Bear Technology Limited, a company incorporated in the BVI with limited liability on 29 October 2021 and one of our Controlling Shareholders
Beauty Bear Employee Incentive Plan	the employee incentive plan consisting of the Beauty Bear Share Option Scheme and the RSA Scheme adopted by our Company pursuant to a resolution of the Board passed on 1 April 2022 and 17 October 2022
Beauty Bear Share Option Scheme	the share option scheme under the Beauty Bear Employee Incentive Plan adopted by the Board pursuant to the written resolutions passed on 1 April 2022
Board or Board of Directors	the board of directors of the Company
Board Committees	collectively the Remuneration Committee, the Nomination Committee, and the Audit Committee, and the "Board Committee" means any of them
BVI	the British Virgin Islands
Capitalisation Issue	has the meaning ascribed to "Capitalization Issue" in the Prospectus
CG Code	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, as amended from time to time
China or PRC	the People's Republic of China
Company	LX Technology Group Limited 凌雄科技集團有限公司, a company incorporated in the Cayman Islands as an exempted company with limited liability on 10 January 2022 and the Shares of which are listed on the Main Board (stock code: 2436)
Controlling Shareholder(s)	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, collectively refers to Mr. Hu, Bear Family, Little Bear, LX Brothers and Beauty Bear
COVID-19	Coronavirus Disease 2019

Definitions

Director(s)	director(s) of the Company
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
EBITDA	Adjusted earnings before interest, taxes, depreciation and amortisation
Employee Incentive Plans	the Beauty Bear Employee Incentive Plan and the LX Brothers Employee Incentive Plan, collectively
ESG	environmental, social and corporate governance
Global Offering	has the meaning ascribed to it in the Prospectus
Group, we, us or our	the Company and its subsidiaries
Hong Kong or HK	the Hong Kong Special Administrative Region of the PRC
Hong Kong dollars, HKD or HK$	Hong Kong dollars, the lawful currency of Hong Kong
Independent Third Party(ies)	a person, or in the case of a company, the company or its ultimate beneficial owner(s), who is independent of and not connected with the Company and its subsidiaries and its connected persons and its ultimate beneficial owner(s) or their respective associates
IPO	the initial public offering of the Company
IPO Proceeds	proceeds from the IPO
IT	information technology
JD or JD.com	JD.com, Inc., a leading supply chain-based technology and service provider, 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
Joint Company Secretary(ies)	the joint company secretary(ies) of the Company
KA Customer(s)	key account customer, a customer who subscribes 30 devices or more as at 1 January of a particular year under the Company's long-term device subscription services
Listing	the listing of the Shares on the Main Board
Listing Date	the date of Listing of the Company, i.e. 24 November 2022

Definitions

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 5 November 2021 and one of our Controlling Shareholders
LX Brothers	LX Brothers Technology Limited, a company incorporated in the BVI with limited liability on 29 October 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 the Board passed on 23 March 2022
Main Board	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
Memorandum	the second amended and restated memorandum of association of the Company (as amended from time to time)
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
Mr. Hu	Mr. Hu Zuoxiong, our chairman, chief executive officer and executive Director and one of our Controlling Shareholders
Mr. Hua	Mr. Hua Baocheng, a Shareholder and an employee of the Group
Nomination Committee	the nomination committee of the Board
Prospectus	the prospectus of the Company dated 14 November 2022
Remuneration Committee	the remuneration committee of the Board
Renminbi or RMB	the lawful currency of the PRC
Reporting Period or Year	the period from 1 January 2022 to 31 December 2022
RSA Scheme	the restricted share award scheme under the Beauty Bear Employee Incentive Plan adopted by a resolution of the Board on 1 April 2022 and amended by a resolution of the Board on 17 October 2022
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
Shareholder(s)	holder(s) of the Share(s)
Share(s)	ordinary share(s) with nominal value of HK$0.01 each in the share capital of the Company, which are traded in Hong Kong dollars and listed on the Main Board of the Stock Exchange

SME	a small-and medium-sized enterprise with a number of employees under 5,000
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder	has the meaning as ascribed thereto under the Listing Rules
Tricor Trust	Tricor Trust (Hong Kong) Limited

* *For identification purposes only*

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors and the management team of the Group, I am delighted to present the first annual report of LX Technology Group Limited and its subsidiaries subsequent to our successful listing on the Main Board of The Stock Exchange of Hong Kong Limited on 24 November 2022. I would like to express my sincere appreciation to all individuals who have contributed in accomplishing this significant milestone. Since our listing, we have progressively fortified our corporate operations, enhanced our corporate and brand image, and solidified our prominent position in the device lifecycle management sector, all of which have been instrumental in the development of the Company. The proceeds from our successful listing have also facilitated the improvement in customer experience, the expansion of customer base and market share, system upgrades and product development, and the enhancement of our risk management capabilities. As such, a robust foundation has been laid for the Group to cope with challenges and boost long-term growth.

In 2022, despite the uncertainties and challenges posed by the complex external environment, we demonstrated our cohesion and determination by capitalising on favourable circumstances and remaining steadfast in our mission to enable "seamless office operations". As part of our efforts in serving a myriad of SMEs in China, we have catered to the increasing digital requirements of SMEs and addressed their IT device management difficulties, creating highly-efficient and asset-light office environments. Furthermore, we have deeply ingrained the principles of environmental, social and governance (ESG) into our corporate ethos, thereby contributing to the achievement of the national goals of "emission peak and carbon neutrality". As a responsible private enterprise, we have integrated ESG principles into our day-to-day operations, consistently generating social value. By leveraging the subscription-based model for IT devices, we enabled enterprises to curtail direct device procurement, resulting in substantial savings of up to 97.4% in initial capital investments. Moreover, through our flexible one-stop services, we assisted enterprises in reducing operational costs by 30% over a three-year period. This year, we empowered more than 17,000 IT device subscription customers to achieve cost optimisation, enhance operational efficiency, and optimise asset utilisation. We expect that we will further develop and expand within the emerging market of device lifecycle management in China, creating greater value for our customers, industry and shareholders.

2022 was a challenging year. In spite of various adverse macroeconomic factors, including the impact of the pandemic and global economic volatility, LX Technology showcased remarkable resilience against economic cycles, achieving record-high operating income and defying market headwinds. Our operating results also reflected robust and sustainable performance. In 2022, our revenue amounted to RMB1,664.0 million, representing a year-on-year increase of 25.1%. Our device recycling business generated revenue of RMB1,189.7 million, representing an increase of 28.7% as compared with the same period last year. Our device subscription business recorded revenue of RMB319.3 million, representing a year-on-year growth 20.2%. Furthermore, 2022 witnessed a significant improvement in profitability as our business turned around from loss to profit of RMB99.9 million for the year. We will continue to pursue our dual objectives of higher revenue and profit.

With our commitment to "customer-centric services, close collaboration and trustworthiness, accountability, and long-term hard work and perseverance", we have maintained a prudent approach in achieving outstanding business performance. In 2022, we recorded a steady rise in customer base, per customer revenue, units of devices sold and device subscription volume. In particular, our customer acquisition capabilities have been continuously enhanced, with the number of KA Customers amounting to 1,387, representing a year-on-year increase of 26.3%. In respect of our device subscription business, the increase in the number of long-term device subscription customers was over 3,200, representing an increase of 32.9% as compared with the same period last year. Moreover, our device recycling business contributed to a reduction in carbon emissions of 6,309.8 tonnes, making a positive impact on society.

The financial performance and operational data of 2022 have proven the effective implementation of our development strategy. We firmly believe that only through wholehearted dedication and services in a professional manner from our employees can we truly earn the trust and respect of our customers. This will enable us to better serve our shareholders while continuously creating greater value for society and the environment. Going forward, we will deepen our foothold in the device lifecycle management industry and serve a larger number of SMEs with an aim to reward our shareholders with impressive performance.

Lastly, on behalf of the Board, I would like to express my heartfelt appreciation to the management team and employees for their unwavering commitment and valuable contributions. I would also like to extend sincere gratitude to our shareholders, business partners and the community for their support and trust. Let us forge ahead together and continue to share the achievements of the Group's development.

Hu Zuoxiong
Chairman
LX Technology Group Limited

Hong Kong, 12 July 2023

Management Discussion and Analysis

BUSINESS REVIEW

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 device lifecycle management solution provider. During the Year, the Group assisted 13,326 long-term device subscription customers to achieve light asset and digitalisation transformation, as compared to 10,030 long-term device subscription customers for the year ended 31 December 2021, representing an increase of approximately 32.9% year-over-year. In addition, the Group served 127 government units and provided aggregated device subscription volume of 18,292 devices to these government units which posed positive influence to the COVID-19 epidemic control work of these government units.

During the Year, our capability for KA Customer(s) acquisition had enhanced consistently, the KA Customers of the Company increased from 1,098 for the year ended 31 December 2021 to 1,387 for the Year, representing an increase of 26.3% year-over-year. The development of the business of the Group has maintained its momentum and achieved growth despite the slow market.

Since our inception, we have instilled social values into our DLM business by facilitating enterprises to lower their operating costs and improving their IT device full-lifecycle utilisation, for which we have gained excellent reputation and established a reputable corporate image. The Group was recognised as one of "The Specialised and New "Little Giant" Enterprises" (專精特新"小巨人"企業) in 2021 and was once again recognised as 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 2022. In July 2022, the Group was recognised as the "High Growth Enterprises of the Year" (年度高成長企業) by Securities Times. In December 2022, the Group was recognised as "A new IPO Company Most Favoured by Investors" (最受投資者歡迎新股公司) by Zhitong Caijing (智通財經), "The Best Corporate Services Brand of the Year" (年度最佳企業服務品牌) by TMTpost and "The Most Influential Innovative Enterprise of the Year in the Corporate Services Field" (年度企業服務領域最具影響力創新企業) by Lieyunwang (獵雲網), respectively.

According to China Insights Industry Consultancy Limited, 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 was primarily generated from (i) device recycling business, contributing to approximately 71.5% of our revenue; and (ii) device and IT technical subscription services, contributing to the rest of our revenue.

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 programmes 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. 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 major phases in device lifecycle including long-term and short-term subscriptions and device disposals, serving primarily enterprises and individual users working therein.

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 Year 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. We typically target large-scale enterprises as upstream suppliers of de-commissioned IT devices. The device recycling business provides us with a stable source of de-commissioned 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-instaling device configurations and customising system settings. We offer tailor-made short-term and long-term device subscription services to satisfy our customers' needs for diverse business scenarios.

- *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.

Device recycling business

For the Year, the Group's revenue from device recycling business amounted to approximately RMB1,189.7 million, representing an increase of approximately 28.7% as compared to approximately RMB924.4 million for the same period in 2021.

The following table sets forth certain of our key operating data for the years indicated:

	Year ended 31 December		
	2022	2021	Growth Rate
Number of devices sold *(device)*	**925,561**	857,118	8.0%
Number of device recycling customers	**1,060**	1,101	–3.7%
Average revenue per device recycling customer *(RMB)*	**1,122,339**	839,608	33.7%
Average sales value *(RMB/device)*	**1,185.2**	876.9	35.2%

Device subscription business

For the Year, the Group's revenue from device subscription business amounted to approximately RMB319.3 million, representing an increase of approximately 20.2% as compared to approximately RMB265.6 million for the same period in 2021.

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 31 December		
	2022	2021	Growth Rate
Revenue from device subscription services *(RMB'000)*	**319,254**	265,602	20.2%
— Brand-new devices	**259,380**	201,040	29.0%
— Second-hand devices	**59,874**	64,562	–7.3%
Total device subscription volume *(device)*	**4,957,703**	4,235,301	17.1%
— Brand-new devices	**3,715,865**	2,832,874	31.2%
— Second-hand devices	**1,241,838**	1,402,427	–11.5%
Total number of devices available for subscription	**518,915**	455,357	14.0%

IT technical subscription services

For the Year, the Group's revenue from IT technical subscription services amounted to approximately RMB155.1 million, representing an increase of approximately 10.5% as compared to approximately RMB140.4 million for the same period in 2021.

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 31 December		
	2022	2021	Growth Rate
	(RMB'000)	(RMB'000)	
Revenue from IT technical subscription services	**155,115**	140,392	10.5%
— Long-term subscriptions	**111,769**	97,685	14.4%
— Short-term subscriptions	**43,346**	42,707	1.5%

Future Outlook

In recent years, the implementation of mass entrepreneurship and favourable policies by the PRC government have boosted the number of enterprises, especially SMEs, in China. The growing IT spending and increased digitalisation needs of these SMEs and enterprises have led to an increasing demand for DLM solutions.

In early 2023, the PRC government launched various measures to stimulate the economy in China which is favourable for the development of the SMEs. At the same time, during the COVID-19 epidemic, the light asset office operational concepts have been cultivated within the enterprises and has changed the traditional procurement-based consumption concepts. We believe the penetration rate of the IT device subscription services market will continue to increase.

Most of the enterprises have an inelastic demand towards IT equipment such as computers, and these IT equipment requires daily maintenance and management during ordinary course of usage. The Group, as the largest enterprise-level DLM solution provider in China, will leverage the synergistic effect of the Group's business models to assist the enterprises to reduce costs, improve efficiency and achieve sustainable development.

The low penetration rate of IT device subscription services market and the growing demand of DLM solutions from enterprises have brought to the Group both challenges and opportunities. The Group aims to continue to expand the scale of IT equipment under our management, develop DLM solutions products and services for different scenarios, improve technical capabilities and upgrade system infrastructure, improve customer experience and meet the needs of our customers.

In the future, we will continue to take up additional corporate social responsibilities by assisting enterprises to reduce costs and improve efficiency. We will also pose positive environmental, social and governance impacts on the working environment of enterprises through provision of DLM solutions.

FINANCIAL REVIEW

Revenue

The Group's revenue comes from three service lines: (i) device recycling income; (ii) device subscription services; and (iii) IT technical subscription services. The following table sets out the breakdown of revenue by service lines during the indicated periods:

	Year ended 31 December				
	2022 (Audited)		2021 (Audited)		Growth Rate
Revenue	**RMB'000**	**%**	RMB'000	%	%
Device recycling income	**1,189,680**	**71.5**	924,408	69.4	28.7
Device subscription services	**319,254**	**19.2**	265,602	20.0	20.2
— Long-term device subscription	**257,941**	**15.5**	217,559	16.4	18.6
— Short-term device subscription	**61,313**	**3.7**	48,043	3.6	27.6
IT technical subscription services	**155,115**	**9.3**	140,392	10.6	10.5
Total	**1,664,049**	**100.0**	1,330,402	100.0	25.1

For the Year, the total revenue of the Group was approximately RMB1,664.0 million (31 December 2021: approximately RMB1,330.4 million), representing an increase of approximately 25.1% as compared with the same period in 2021, mainly attributable to the increase in revenue across all our service lines.

Device recycling income

The increase in the device recycling income business during the Year as compared with the same period in 2021 was mainly due to (i) the increase in availability and resell value of de-commissioned IT devices as a result of the increasing disposal of de-commissioned IT devices by certain leading IT companies; and (ii) the enhancement of our procurement capability due to the increase in number of upstream suppliers of de-commissioned IT devices from 317 for the year ended 31 December 2021 to 365 for the Year.

The following table sets forth a breakdown of our revenue of the device recycling business by major types of IT devices during the periods indicated:

	Year ended 31 December				
	2022 (Audited)		2021 (Audited)		Growth Rate
	RMB'000	%	RMB'000	%	%
Tablet computers and mobile phones	798,316	67.2	468,304	50.6	70.5
Laptop computers and other IT devices	391,364	32.8	456,104	49.4	(14.2)
Total	1,189,680	100.0	924,408	100.0	28.7

Revenue from device subscription services

The increase in revenue from device subscription services during the Year as compared with the same period in 2021 was mainly due to (i) the growth in number of long-term device subscription customers from 10,030 for the year ended 31 December 2021 to 13,326 for the Year; (ii) the increase in total device subscription volume from 4,235,301 devices for the year ended 31 December 2021 to 4,957,703 devices for the Year 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 RMB62.7 for the year ended 31 December 2021 to RMB64.4 for the Year due to the increase in subscription of laptop computers and printers which were priced relatively higher on average.

Revenue from IT technical subscription services

The increase in revenue from IT technical subscription services during the Year as compared with the same period in 2021 was primarily attributable to the increase in average monthly subscription volume under IT technical subscription services from 228,662 devices for the year ended 31 December 2021 to 285,310 devices for the Year as (i) the increase in number of devices for subscription as discussed above; and (ii) the increase in number of customers for IT technical subscription services from 11,178 for the year ended 31 December 2021 to 15,121 for the Year.

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 years indicated:

	Year ended 31 December			
	2022 (Audited)		2021 (Audited)	
	RMB'000	%	RMB'000	%
Shenzhen	1,331,509	80.0	983,551	73.9
Shanghai	92,200	5.5	85,668	6.4
Wuhan	81,438	4.9	80,051	6.0
Beijing	81,061	4.9	78,876	5.9
Guangzhou	44,576	2.7	37,852	2.8
Others(1)	33,265	2.0	64,403	4.8
Total	1,664,049	100.0	1,330,402	100.0

Note:

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

Cost of Sales

Our cost of sales consists primarily of (i) costs of inventories sold; (ii) depreciation and amortisation, 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. Our cost of sales was approximately RMB1,464.8 million for the Year (31 December 2021: approximately RMB1,137.3 million), accounting for approximately 88.0% (31 December 2021: approximately 85.5%) of our revenue in the same period. The increase in cost of sales during the Year as compared to the same period in 2021 was mainly attributable to (i) the increase in the cost of inventories sold by approximately 31.1% or RMB276.7 million for more de-commissioned devices purchased in response to the growth of our recycling services; and (ii) the increase in the depreciation by approximately 23.0% or approximately RMB42.0 million due to more devices purchased for subscription services.

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 indicated:

	Year ended 31 December			
	2022		2021	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Device recycling income	**15,225**	**1.3**	29,107	3.1
Device subscription services	**73,725**	**23.1**	61,654	23.2
IT technical subscription services	**110,325**	**71.1**	102,375	72.9
Total	**199,275**	**12.0**	193,136	14.5

Our gross profit represents our revenue less our cost of sales. For the Year, our gross profit was approximately RMB199.3 million, representing an increase of approximately 3.2% as compared with approximately RMB193.1 million for the same period in 2021 as a result of the overall revenue growth for reasons mentioned above. The gross profit margin of the Group decreased from approximately 14.5% for the year ended 31 December 2021 to approximately 12.0% for the Year.

Device recycling income

The gross profit of device recycling business decreased from approximately RMB29.1 million for the year ended 31 December 2021 to approximately RMB15.2 million for the Year. Our gross profit margin of device recycling business decreased from approximately 3.1% for the year ended 31 December 2021 to approximately 1.3% for Year, primarily attributable to increasing cost of inventories sold by approximately 31.1% from approximately RMB890.9 million to approximately RMB1,167.6 million during the corresponding periods due to the purchase of more de-commissioned IT devices, which is partially offset by the increase in sales of tablet computers and mobile phones as a percentage of sales of de-commissioned IT devices from approximately 50.6% for the year ended 31 December 2021 to approximately 67.2% for the Year, which has lower profit margin.

Device subscription services

The gross profit of device subscription services increased from approximately RMB61.7 million for the year ended 31 December 2021 to approximately RMB73.7 million for the Year as we managed to generate more subscription revenue by increasing the total device subscription volume from 4,235,301 for the year ended 31 December 2021 to 4,957,703 for the Year. Our gross profit margin of device subscription services remained stable at approximately 23.2% for the year ended 31 December 2021 and approximately 23.1% for the Year. The average monthly utilisation rates of our major types of devices for subscription increased from approximately 84.9% for the year ended 31 December 2021 to approximately 85.3% for the Year.

IT technical subscription services

The gross profit of IT device subscription services increased from approximately RMB102.4 million for the year ended 31 December 2021 to approximately RMB110.3 million for the Year. Our gross profit margin of IT technical subscription services slightly decreased from approximately 72.9% for the year ended 31 December 2021 to approximately 71.1% for the Year, primarily attributable to (i) the decrease in average monthly subscription price per device under IT technical subscription services from RMB51.2 for the year ended 31 December 2021 to RMB45.3 for the Year; and (ii) the increase in staff cost by approximately RMB1.9 million due to the increment of salary level of our technical staff as an incentive for them to address customers' demand in a more responsive manner.

Other Income

For the Year, other income was approximately RMB18.6 million, representing an increase of approximately 25.2% from approximately RMB14.9 million for the year ended 31 December 2021, primarily due to the recognition of approximately RMB4.0 million compensation income from customers due to early termination of contract.

Fair value change of financial liabilities at fair value through profit or loss ("FVTPL")

The fair value change of financial liabilities at FVTPL increased by approximately RMB631.6 million from a fair value loss of approximately RMB433.9 million for the year ended 31 December 2021 to a fair value gain of approximately RMB197.7 million for the Year. The turnaround from fair value loss to fair value gain was primarily attributable to the conversion of the preferred shares of the Company held by certain Shareholders to the Shares upon completion of the Global Offering.

Distribution and selling expenses

The distribution and selling expenses increased by approximately 8.5% from approximately RMB115.9 million for the year ended 31 December 2021 to approximately RMB125.7 million for the Year, primarily attributable to (i) the increased salaries and welfare of our sales and marketing team; and (ii) the addition of share-based payments expense of approximately RMB22.4 million in connection with the new Shares issued for our employee incentive plans in April 2022. However, our distribution and selling expenses as a percentage of revenue decreased from approximately 8.7% for the year ended 31 December 2021 to approximately 7.6% for the Year.

Administrative Expenses

The administrative expenses increased by approximately 114.3% from approximately RMB40.5 million for the year ended 31 December 2021 to approximately RMB86.8 million for the Year, primarily due to the share-based payments expense of approximately RMB41.1 million in connection with the new Shares issued for our employee incentive plans in April 2022. Our administrative expenses as a percentage of revenue increased from approximately 3.0% for the year ended 31 December 2021 to approximately 5.2% for the Year.

Research and Development Expenses

The research and development expenses increased by approximately 50.4% from approximately RMB18.3 million for the year ended 31 December 2021 to approximately RMB27.5 million for the Year, primarily due to (i) the share-based payments expense of approximately RMB7.7 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 offering of competitive remuneration to research and development staff for the development of our DLM solutions. Our research and development expenses as a percentage of revenue remained stable at approximately 1.4% and 1.7% for the years ended 31 December 2021 and 2022, respectively.

Finance Costs

The finance costs increased by approximately 16.9% from approximately RMB36.3 million for the year ended 31 December 2021 to approximately RMB42.4 million for the Year, primarily attributable to the increase of interest expenses driven by a larger balance of bank and other borrowings for acquisition of IT devices for subscription in response to the increasing demand for subscription of IT devices from our customers, which was in line with our business expansion for device subscription services during the Year.

Income Tax (Credit)/Expense

The income tax expense was approximately RMB2.4 million for the year ended 31 December 2021. For the Year, our income tax credit was approximately RMB4.3 million.

Profit/(Loss) and Total Comprehensive Income/(Expense) for the Year

A profit of approximately RMB99.9 million for the Year was recorded, compared to a loss of approximately RMB448.70 million for the year ended 31 December 2021. The turnaround from loss to profit was primarily due to (i) the recognition of net fair value gain of financial liabilities at FVTPL of approximately RMB197.7 million for the Year as compared to fair value loss of financial liabilities at FVTPL of approximately RMB433.9 million for the corresponding period in 2021; and (ii) the increase of revenue in the amount of approximately RMB333.6 million for the Year.

Adjusted Profit

The adjusted profit (a non-International Financial Reporting Standard ("**IFRS**") measure) for the Year was approximately RMB10.9 million as compared to the adjusted loss of approximately RMB7.4 million for the year ended 31 December 2021.

Adjusted EBITDA

The adjusted EBITDA (a non-IFRS measure) for the Year increased by approximately 27.2% from approximately RMB224.0 million for the year ended 31 December 2021 to approximately RMB285.1 million for the Year.

Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted profit and adjusted EBITDA (non-IFRS measures) as additional financial measures, which are not required by, or presented in accordance with, IFRSs. We believe that such measures provide useful information to the Shareholders, potential investors of the Company 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 profit and adjusted EBITDA (non-IFRS measures) may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measures have 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.

We define adjusted loss/profit as loss/profit plus listing expenses, (gain)/loss of financial liabilities at FVTPL, share-based payment expenses and exchange losses. We define adjusted EBITDA as loss/profit plus finance cost, interest income, income tax expenses, depreciation of property, plant and equipment and right-of-use of assets, listing expenses, (gain)/loss of financial liabilities at FVTPL, share-based payment expenses and exchange losses. The fair value change of financial liabilities at FVTPL represents fair value changes in relation to series of investments in LX Technology (Shenzhen) Co., Ltd, a wholly-owned subsidiary of the Company, the conversion of such investments into the preferred shares of the Company prior to the Listing on the Stock Exchange as part of the reorganisation and the conversion from preferred shares of the Company to the Shares upon Listing. Share-based payments expense of approximately RMB71.2 million for the Year comprised expenses recognised under distribution and selling expenses, administrative expenses and research and development expenses in the amounts of approximately RMB22.4 million, RMB41.1 million and RMB7.7 million, respectively.

A reconciliation of these non-IFRS financial measures to the nearest IFRS performance measures is provided below:

	Year ended 31 December	
	2022 **RMB'000**	2021 RMB'000
Reconciliation of gain/(loss) for the year and adjusted profit/(loss) (a non-IFRS measure)		
Gain/(loss) for the year	**99,948**	(448,702)
Non-IFRS measure:		
Adjusted profit		
Add:		
Listing expenses	**31,735**	7,398
Fair value change of financial liabilities at FVTPL	**(197,680)**	433,916
Share-based payments expense	**71,150**	—
Exchange loss	**5,784**	—
Non-IFRS measure:		
Adjusted profit/(loss)	**10,937**	(7,388)

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Reconciliation of gain/(loss) for the year and adjusted EBITDA (a non-IFRS measure)		
Gain/(loss) for the year	**99,948**	(448,702)
Add:		
Income tax expense	**(4,250)**	2,431
Finance costs	**42,425**	36,301
Bank interest income	**(750)**	(669)
Depreciation of property, plant and equipment and right-of-use assets	**236,700**	193,343
Non-IFRS measure:		
EBITDA	**374,073**	(217,296)
Add:		
Listing expenses	**31,735**	7,398
Fair value change of financial liabilities at FVTPL	**(197,680)**	433,916
Share-based payments expense	**71,150**	—
Exchange loss	**5,784**	—
Non-IFRS measure:		
Adjusted EBITDA	**285,062**	224,018

Current Assets

As at 31 December 2022, the current assets of the Group were approximately RMB727.1 million, representing an increase of approximately 86.4% as compared with approximately RMB390.1 million as at 31 December 2021. As at 31 December 2022, the current ratio (current assets divided by current liabilities) of the Group was approximately 1.2 times (31 December 2021: approximately 0.7 times).

Property, Plant and Equipment and Right-of-Use Assets

Our property, plant and equipment and right-of-use assets of the Group primarily consist of leased properties, equipment for subscription, office equipment, motor vehicles and lease improvement. The property, plant and equipment and right-of-use assets increased from approximately RMB753.9 million as at 31 December 2021 to approximately RMB802.9 million as at 31 December 2022, primarily attributable to (i) additions of equipment for subscription amounting to approximately RMB346.4 million for our device subscription services in 2022; and (ii) partially offset by the depreciation charge amounting to approximately RMB224.4 million for the Year. The increase in acquisition of IT devices for subscription in response to the increasing demand for subscription of IT devices from our customers which was in line with our business expansion for device subscription services during the Year.

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. The inventories increased from approximately RMB74.3 million as at 31 December 2021 to approximately RMB76.6 million as at 31 December 2022, mainly due to the increase in demand in disposal of de-commissioned IT devices from upstream suppliers close to the end of the Year.

Trade and Lease Receivables

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 trade and bill receivables increased from approximately RMB53.4 million as at 31 December 2021 to approximately RMB64.9 million as at 31 December 2022, primarily due to the increase in revenue generated from the increasing amount of subscriptions and sales from all service lines, which was in line with our business expansion.

Other Receivables, Deposits and Prepayments

Our other receivables, deposits and prepayments decreased from approximately RMB140.7 million as at 31 December 2021 to approximately RMB117.3 million as at 31 December 2022, primarily due to the decrease in prepayment for operating expenses by approximately RMB15.5 million due to increasing portion of usage of prepaid customer acquisition costs on third party e-commerce platform and the decrease in value-added tax receivables by approximately RMB2.2 million.

Trade Payables

Trade payables represent procurements payable to suppliers for the purchase of IT devices. As at 31 December 2022, trade payables amounted to approximately RMB125.1 million, representing an increase of approximately RMB56.8 million as compared with approximately RMB68.3 million as at 31 December 2021, primarily attributable to the increase in procurement of IT devices to satisfy the needs led by the expansion of our device recycling business and device subscription business.

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 listing expenses; (vii) accrued issue costs; and (viii) others.

As at 31 December 2022, other payables and accruals amounted to approximately RMB60.6 million, representing an increase of approximately RMB2.2 million as compared with approximately RMB58.4 million as at 31 December 2021, primarily due to the increase in accrued expenses by approximately RMB3.6 million and accrued listing and issue costs by approximately RMB2.3 million and partially offset by the decrease in other tax payables by approximately RMB3.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Our cash requirements principally funded by cash generated from operations, net proceeds from the Global Offering and other debt financings.

Bank Balances and Cash

Our bank balance and cash consist of our bank balances and cash and restricted deposits. Our bank balance and cash amounted to approximately RMB183.8 million as at 31 December 2022 (31 December 2021: approximately RMB148.2 million). The increase in bank balance and cash were mainly due to the funds raised by the Group from the Global Offering and the increases in our net cash flows from operating activities. As at 31 December 2022, majority of the Group's cash and cash equivalents were denominated in Renminbi and Hong Kong dollars.

Bank and Other Borrowings

As at 31 December 2022, we had bank borrowings with a carrying amount of approximately RMB329.3 million and other borrowings of approximately RMB221.6 million, such borrowings comprise (i) approximately RMB436.2 million of unsecured and guaranteed bank and other borrowings; and (ii) approximately RMB114.8 million of secured and guaranteed bank and other borrowings.

All of our bank and other borrowings were subject to fixed interest rate. For the Year, the effective interest rates of the Group's borrowings ranged from 4.0% to 11.8% per annum (31 December 2021: 5.2% to 12.8% per annum). Our borrowings were all denominated in RMB.

Pledge of Assets

As at 31 December 2022, we have pledged assets of book value of RMB218.0 million as securities for our interest-bearing borrowings.

Gearing Ratio

The calculation of gearing ratio is based on total debt for the year divided by total equity for the respective year and multiplied by 100.0%. The gearing ratio as at 31 December 2021 was not meaningful because the Company recorded deficit in equity as at 31 December 2021 while the gearing ratio as at 31 December 2022 was 68.2%.

Significant Investments Held, Material Acquisitions and Disposals

During the Year, the Company subscribed two redeemable principal and return guaranteed money market funds (the "**Money Market Funds**") with two different segregated portfolios, of which (i) approximately HK$227.6 million (equivalent to approximately RMB208.3 million) was subscribed in a fund of Future Vision Fund SPC ("**Fund Company A**"); and (ii) approximately HK$52.4 million (equivalent to approximately RMB48.0 million) was subscribed in a fund of Blue Ocean Fund SPC ("**Fund Company B**"). To the best of the Directors' knowledge, information, and belief, having made all reasonable enquiries, each of Fund Company A, Fund Company B, their respective segregated portfolios and ultimate beneficial owners are third parties independent of and not connected with the Company or its connected persons. For details, please refer to the announcement of the Company dated 4 May 2023.

Save as disclosed above, there were no significant investments, acquisitions and disposals of subsidiaries, associates or joint ventures during the Year.

Future Plans for Material Investments and Capital Assets

Except for the plans disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group has no future plan for material investments or capital assets during the Year. However, the Group will continue to identify new opportunities for business development.

Contingent Liabilities and Commitments

We did not have any material contingent liabilities as at 31 December 2022.

Foreign Exchange Risk

The Group conducts its business with all of the transactions settled in RMB. The Group will continue to keep track of the foreign exchange risk and take prudent measures and actions to mitigate exchange risk where necessary. The Group currently has not adopted any foreign currency hedging policies.

Employees and Remuneration Policy

As at 31 December 2022, the Group had 761 full-time employees (as at 31 December 2021: 831 full-time employees). We recognise the importance of talents for sustainable business growth and competitive advantages. As part of our human resources strategy, we offer employees competitive salaries, performance-based bonuses, and other incentives. For the Year, the remuneration for our employees, but excluding the Directors' remunerations, were approximately RMB191.5 million (for the year ended 31 December 2021: approximately RMB122.0 million).

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 realise our employees' full potential.

In recognition of the contributions of our employees and to incentivise them to further promote our development, the Group also adopted LX Brothers Employee Incentive Plan and Beauty Bear Employee Incentive Plan. For details, please refer to section headed "D. Employee Incentive Plans" in Appendix IV to the Prospectus.

SUBSEQUENT EVENTS

In March 2023, the Company fully redeemed the Money Market Funds with an aggregate redemption price of HK$281.5 million, which comprised principal of approximately HK$280.0 million and interest income of approximately HK$1.5 million. For further details, please refer to the announcement of the Company dated 4 May 2023.

Save as disclosed above and in (i) the announcement of the Company dated 23 March 2023 in relation to the trading halt of the Shares; (ii) the announcements of the Company dated 31 March 2023 and 28 April 2023 in relation to, among others, the delay in publication of the annual results and annual report of the Group for the Year which was mainly caused by certain unresolved audit matters in relation to the Money Market Funds; (iii) the announcement of the Company dated 11 May 2023 in relation to the guidance on the resumption of trading in the Shares issued by the Stock Exchange; (iv) the announcement of the Company dated 21 June 2023 in relation to the quarterly update on status of resumption; and (v) the announcement of the Company dated 14 July 2023 in relation to the key findings and results of independent investigation and internal control review, no other event has taken place subsequent to 31 December 2022 and up to the date of this report that may have a material impact on the Group's operating and financial performance that needs to be disclosed.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date and up to 31 December 2022.

Profile of Directors and Senior Management

Executive Directors

Mr. Hu Zuoxiong (胡祚雄), aged 45, 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 10 January 2022 and was re-designated as our executive Director on 24 March 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 37, was appointed as the chief technology officer and the vice president of our Group in December 2019. He was appointed as our Director on 10 January 2022 and was re-designated as our executive Director on 24 March 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.

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 36, was appointed as the general manager of the strategic customer center of our Group in March 2012. He was appointed as our Director on 10 January 2022 and was re-designated as our executive Director on 24 March 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 42, was appointed as our non-executive Director on 28 March 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.

Mr. Li is an employee of JD.com, one of the substantial shareholders of the Company.

Independent non-executive Directors

Mr. Kam Chi Sing (甘志成), aged 52, was appointed as our independent non-executive Director on 27 September 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 57, was appointed as our independent non-executive Director on 27 September 2022. She is primarily responsible for providing independent advice on the operation and management of our Group.

Ms. Xu has over 30 years of experience in the finance and investment industry. From July 1986 to December 1992, Ms. Xu served at Finance College of China (中國金融學院), a subunit of the Head Office of the People's Bank of China, and China Rural Development Trust and Investment Corporation (中國農村發展信託投資公司). From April 1997 to December 2008, Ms. Xu worked in the Guangzhou branch of China Everbright Bank, which she was primarily responsible for operations management, 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 head office of the audit and supervision department and the operational risk management department (Presided over the work), where she was responsible for auditing, supervising and evaluating the bank's operational management, financial capital, office security, legal compliance and risk management related work. From September 2012 to January 2021, Ms. Xu served in China Everbright International Ltd. (now known as China Everbright Environment Group Limited ("**CEE**")), a company listed on the Main Board of the Hong Kong 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 Singapore Stock Exchange (Stock Code: U9E) and the Main Board of the Hong Kong 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 wholly-owned subsidiary of CEE), where she was primarily responsible for financial operations, investment budgeting, financing, intermediary agency management, risk management work, and serving as the chairman or committee member of multiple professional committees.

Ms. Xu holds the professional title of Chinese Senior Economist (Finance). 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 from Southwestern University of Finance and Economics (西南財經大學) in the PRC in July 2004[1] and a master's degree in executive business management from Xiamen University (廈門大學) in the PRC in September 2015.

1. Obtained through long distance learning.

Mr. Yao Zhengwang (姚正旺), aged 48, was appointed as our independent non-executive Director on 11 April 2023. He is primarily responsible for providing independent views in relation to the operation, investments and management of the Group.

Mr. Yao has over 20 years of experiences in the investment and financial industry and the corporate governance of listed A-shares companies in the PRC. From July 1997 to May 2007, Mr. Yao successively served in various positions including office clerk, managers of the legal department, sales department and investment department, as well as a supervisor at Shenzhen New Asia Assets Development Company Limited* (深圳新亞洲實業發展有限公司). From May 2007 to June 2008, Mr. Yao served as the deputy office supervisor at Sino Life Insurance Company Ltd.* (生命人壽保險股份有限公司). Since May 2007, he successively served as a supervisor, chairman of the supervisory committee, the secretary of the board of directors and is currently a director of Shenzhen China Bicycle Company (Holdings) Limited (深圳中華自行車（集團）股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000017.SZ; 200017.SZ). Since August 2012, Mr. Yao served as a director of Leshan City Commercial Bank Company Ltd.* (樂山市商業銀行股份有限公司) and is currently a supervisor. He is currently also a supervisor of Shenzhen Guosheng Energy Investment Development Company Limited* (深圳市國晟能源投資發展有限公司), a director of Jiaxing Zhishifang Food Technology Company Limited* (嘉興知食坊食品科技有限公司), a supervisor of each of Shenzhen Zhengrui Energy Technology Co., Ltd.* (深圳市正瑞能源技術有限公司), Shenzhen Longpeng Investment Co., Ltd.* (深圳市龍鵬投資有限公司) and Zhengda Energy Development (China) Co., Ltd.* (正大能源發展（中國）有限公司), as well as the general manager of Jilin Fude Investment Holding Co., Ltd.* (吉林省富德投資控股有限公司).

Mr. Yao obtained a bachelor's degree in laws from the Shantou University in 1997. He also obtained the certificate of secretary of the board (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in November 2010 and the completion certificate of the training for senior management of listed issuers (上市公司高級管理人員培訓結業證書) issued by the China Securities Regulatory Commission in November 2007.

Ms. Zhao Jinlin (趙晉琳), aged 54, was appointed as our independent non-executive Director on 27 September 2022 and subsequently resigned with effect from 11 April 2023. 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 (now known as Yinsheng Digifavor Company Limited, stock code: 3773) from 25 November 2014 to 5 May 2023, 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.

SENIOR MANAGEMENT

Mr. Jiang Zeli (蔣澤立), aged 41, 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 specialises 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 21 March 2022. Mr. Liu is responsible for and overseeing the corporate financing and company secretarial matters of our Group.

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., 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 21 March 2022. For the biographical details of Mr. Liu, please see "Senior Management — Mr. Liu Yan (劉炎)" in this annual report.

Ms. Cheung Ka Lun Karen (張嘉倫), aged 33, was appointed as a joint company secretary of the Company on 26 July 2022. Ms. Cheung is a Manager of Corporate Services of Tricor Services Limited, a global professional services provider specialising 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.

Corporate Governance Report

The Board is pleased to present the corporate governance report for the annual report for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTISES

The Company aims to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of the Shareholders. The Group has adopted the code provisions in the CG Code as its own code of corporate governance since the Listing Date.

Save for the deviation for reasons set out below, during the period from the Listing Date and up to 31 December 2022, the Group has complied with the CG 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 the Group in November 2004. Taking into account the continuation of management and the implementation of our business strategies, the Directors (including the 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 the 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. The 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. The Board will regularly review the effectiveness of this structure to ensure that it is appropriate to the Group's circumstances.

Pursuant to code provision D.1.2 of the CG Code, the management should provide all members of the Board with monthly updates to enable the Directors, jointly and severally, discharge their duties. However, due to an inadvertent oversight, the management has not provided such monthly update. As at the date of this annual report, the management has promptly arranged the circulation of monthly updates to the Directors in accordance to code provision D.1.2 of the CG Code.

The Company will continue to review and enhance its corporate governance practises, and identify and formalise appropriate measures and policies, to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a combined code (the "**Code**") of conduct for securities transactions by the Directors since the Listing Date which comprises a comprehensive "Code of Conduct for Securities Transactions by Directors" and the Model Code. Having made specific enquiries to all the Directors, all the Directors confirmed that they have strictly complied with the required standards set out in the Code from the Listing Date and up to 31 December 2022.

The Board has also adopted the Model Code to regulate all dealings by relevant employees, including any employee or a director or employee of a subsidiary or holding company, who, because of his/her office or employment, are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in the applicable code provision D.2.4(e) of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted during the Reporting Period after making reasonable enquiry.

THE BOARD

Responsibilities

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

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

Composition of the Board

As at 31 December 2022 and up to the date of this annual report, the Board comprised seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. Members of the Board are listed below:

Member of the Board	Position	Date of appointment
Executive Directors		
Mr. Hu Zuoxiong	Chairman of the Board, chief executive officer and executive Director	10 January 2022
Mr. Chen Xiuwei	Executive Director, chief technology officer and vice president	10 January 2022
Mr. Cao Weijun	Executive Director and general manager of the strategic customer center	10 January 2022
Non-executive Director		
Mr. Li Jing	Non-executive Director	28 March 2022
Independent Non-executive Directors		
Mr. Kam Chi Sing	Independent non-executive Director	27 September 2022
Ms. Xu Nailing	Independent non-executive Director	27 September 2022
Mr. Yao Zhengwang	Independent non-executive Director	11 April 2023
Ms. Zhao Jinlin	Independent non-executive Director	27 September 2022 (resigned on 11 April 2023)

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

Biography of each Director is set out in the section headed "**Profile of Directors and Senior Management**" of this annual report. Save as disclosed in the section headed "**Profile of Directors and Senior Management**" of this annual report, there is no financial, business, family or other material or relevant relationships among members of the Board and senior management.

Independent Non-executive Directors

For the period from the Listing Date and up to 31 December 2022, the Company has three independent non-executive Directors in compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors exceeds one third of the number of the Board members.

According to Rule 3.13 of the Listing Rules, each of Mr. Kam Chi Sing, Ms. Xu Nailing and Ms. Zhao Jinlin, being the then independent non-executive Directors as at 31 December 2022, have made confirmations to the Company regarding their independence during the Reporting Period. Based on the confirmations of such independent non-executive Directors, the Company considers each of them to be independent during the Reporting Period.

Appointment and Re-election of Directors

The code provision B.2.2 of the CG Code stipulates that every director should be subject to retirement by rotation at least once every three years. The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association.

Each of our executive Directors has entered into a service agreement with our Company for a term of three years starting from the Listing Date, which may be terminated by not less than thirty days' notice in writing served by either party on the other.

Each of our non-executive Director and our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years from the Listing Date or the date of appointment, which may be terminated by not less than one month's notice in writing served by either party on the other.

Article 26.4 of the Articles provides that at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

In accordance with Article 26.3 of the Articles, any new director appointed to fill a causal vacancy or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Training and Continuous Professional Development

Directors should participate in appropriate continuing professional development to develop and refresh their knowledge and skills. The Company has arranged training for its Directors and provided them with reading material on relevant topics. Each Director has been provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations.

All the Directors have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practises. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

All the Directors, namely, Mr. Hu Zuoxiong, Mr. Chen Xiuwei, Mr. Cao Weijun, Mr. Li Jing, Mr. Kam Chi Sing, Ms. Xu Nailing and Ms. Zhao Jinlin (resigned with effect from 11 April 2023) have complied with code provision C.1.4 of the CG Code and participated in continuous professional development to develop and refresh their knowledge and skills during the Reporting Period.

Training received by the Directors during the year ended 31 December 2022 are summarised below:

Directors	Types of Training (Note)
Mr. Hu Zuoxiong	A,B
Mr. Chen Xiuwei	A,B
Mr. Cao Weijun	A,B
Mr. Li Jing	A,B
Mr. Kam Chi Sing	A,B
Ms. Xu Nailing	A,B
Ms. Zhao Jinlin (resigned with effect from 11 April 2023)	A,B

Note: Types of training

A Attending briefing(s) and/or seminar(s) and/or conference(s)

B Reading materials relating to directors' duties and responsibilities

Directors' Responsibility on Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the financial year ended 31 December 2022.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Board has received from the senior management the management accounts and such accompanying explanation and information as are necessary to enable the Board to make an informed assessment for approving the financial statements.

As at 31 December 2022, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt on the Group's ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the Shareholders. The statements by external auditor, ZHONGHUI ANDA CPA Limited, about their reporting responsibility on the consolidated financial statements of the Group are set out in the independent auditor's report in this annual report.

Board Meetings and General Meetings

The Board shall hold at least four meetings a year at approximately quarterly intervals. Additional meetings would be arranged when required. Notices for all regular Board meetings will be given to all Directors at least 14 days before the meetings and the agenda and accompanying Board paper will be given to all Directors at least 3 days before the meetings in order that they have sufficient time to review the papers. Minutes of meetings are kept by one of the Joint Company Secretaries with copies circulated to all Directors or Board Committee members for information and records. Directors who have conflicts of interest in a board resolution shall abstain from voting for that resolution.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors/Board Committee members. Draft and final versions of the minutes of each Board meeting and Board Committee meeting are sent to the Directors/Board Committee members for comments and records respectively within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

All Directors shall obtain information related to the Board resolutions in a comprehensive and timely manner. The Board has also established mechanisms to ensure independent views are available to the Board, including providing the Directors with sufficient resources to perform its duties and shall seek, at the Company's expense, independent professional advice to perform its responsibilities if necessary. All independent non-executive directors are invited to attend the meetings of the Board and the Board Committees, communication channels to the management and the Joint Company Secretaries are also available at all times. The Board shall at all times comprise at least three independent non-executive Directors that represent at least one-third of the Board, such that there is always a strong element of independence on the Board which can effectively exercise independent judgement. All the Directors, including the independent non-executive Directors, will be given equal opportunity and channels to communicate and express their views to the Board and have separate and independent access to the management of the Group in order to make informed decisions. The chairman of the Board will hold meetings with the independent non-executive Directors without the involvement of other Directors at least annually to discuss any issues and concerns. Any Director or his/her associate who has a conflict of interest in a matter to be considered by the Board will be dealt with by a physical Board meeting rather than by written resolutions. Such Director will be required to declare his/her interests before the meeting and abstain from voting and not counted towards the quorum on the relevant resolutions. Independent non-executive Directors who, and whose associates, have no interest in the matter should attend the Board meeting. The Board will review regularly as to whether the mechanisms are effective in ensuring that independent views and input are provided to the Board.

As the Company was listed on 24 November 2022, no Board meeting or general meeting was held from the Listing Date and up to 31 December 2022. The attendance record of the Directors at Board meetings and general meetings will be disclosed in accordance with the Listing Rules in subsequent annual reports of the Company.

BOARD COMMITTEES

Audit Committee

During the Reporting Period, the Audit Committee consisted of three independent non-executive Directors, namely Ms. Xu Nailing, Mr. Kam Chi Sing and Ms. Zhao Jinlin. Ms. Xu Nailing, who holds the appropriate professional qualifications as required under Rule 3.10(2) and Rule 3.21 of the Listing Rules, served as the chairman of the Audit Committee.

The primary duties of the Audit Committee include, but are not limited to: (i) assisting the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems and internal audit of our Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board. For further details, please refer to the written terms of reference of the Audit Committee which are available on the websites of the Company and the Stock Exchange.

During the period from the Listing Date to 31 December 2022, no Audit Committee meeting was held.

Remuneration Committee

During the Reporting Period, the Remuneration Committee comprised three members, namely Ms. Zhao Jinlin, Mr. Hu Zuoxiong and Ms. Xu Nailing, the majority of them are independent non-executive Directors. Ms. Zhao served 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; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Board from time to time; and (iv) reviewing and approving matters required to be reviewed and/or approved by the Remuneration Committee under Chapter 17 of the Listing Rules. For further details, please refer to the written terms of reference of the Remuneration Committee which are available on the websites of the Company and the Stock Exchange.

During the period from the Listing Date to 31 December 2022, no Remuneration Committee meeting was held.

Nomination Committee

During the Reporting Period, the Nomination Committee comprised three members, namely Mr. Hu Zuoxiong, Ms. Xu Nailing and Ms. Zhao Jinlin, the majority of them are independent non-executive Directors. Mr. Hu served 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; (iii) making recommendations to our Board on matters relating to the appointment of Directors; and (iv) review the Board Diversity Policy and its implementation.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

During the period from the Listing Date to 31 December 2022, no Nomination Committee meeting was held.

BOARD DIVERSITY POLICY

Our Board has adopted a board diversity policy which sets out the objective and approach to achieve diversity of the Board. The Group recognises 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. The 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. The 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 36 year old to 57 year old. In terms of gender diversity, during the Reporting Period, two of our seven Directors are female. Therefore, the Company considers that it has achieved gender diversity at the Board level during the Reporting Period and targets to maintain at least a 10% female representation at the Board level.

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.

The Company targets to increase the female representation at the Board level to at least 20% within five years. Furthermore, with a view to develop a pipeline of potential successors to our Board in accordance with the Company's board diversity policy, 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 the Board in a few years' time.

EMPLOYEE DIVERSITY

The Group insists on the principle of fairness and voluntariness in recruitment, and does not impose any restrictive requirements on gender, ethnicity, nationality and region. The indicators on employees of the Group, including senior management, as at 31 December 2022 are set out below:

Indicator	As at 31 December 2022 Number of persons	Percentage of total number of employees
Gender		
Male employees	543	71.4%
Female employees	218	28.6%
Age		
Employees aged 30 and under	432	56.8%
Employees aged from 31 to 40	306	40.2%
Employees aged 41 or above	23	3.0%

As at 31 December 2022, all the members of our senior management are male. The biographical details of our senior management are set out in the section headed "Profile of Directors and Senior Management" of this annual report.

The Group encourages gender diversity across its workplace and is committed to increase the proportion of female employees at all levels. The employment profile of the IT industry is traditionally male-dominated. Considering the nature of business operations of the Group, the Group targets to maintain at least the current gender ratio across the workforce with an ultimate goal to achieve gender parity. As at 31 December 2022, the Group has not encountered any difficulty in recruitment of staff in both genders.

To achieve diversity at workforce level, the Group has put in place appropriate recruitment and selection practises such that a diverse range of candidates are considered. The Group has also established talent management and training programmes to provide career development guidance and promotion opportunities to develop a broad and diverse pool of skilled and experienced employees.

CORPORATE GOVERNANCE FUNCTION

The Board recognises that corporate governance should be the collective responsibility of Directors which include:

- to formulate and review the Company's policies and practises on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practises on compliance with legal and regulatory requirements;
- to formulate, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Listing Rules and disclosure in the Corporate Governance Report.

JOINT COMPANY SECRETARIES

As at 31 December 2022, Mr. Liu Yan and Ms. Cheung Ka Lun Karen were the Joint Company Secretaries. The primary responsibilities of the Joint Company Secretaries include supporting the Board in business transactions, ensuring good communication and flow of information within the Board and the compliance of the policies and procedures of the Board, and advising the Board on governance matters, assisting newly appointed Director to his/her new position and overseeing the trainings and continuous professional development of the Directors. Ms. Cheung Ka Lun Karen is a manager of corporate services of Tricor Services Limited, an external services provider. Her primary contact person at the Company is Mr. Liu Yan, a Joint Company Secretary. According to Rule 3.29 of the Listing Rules, each of the Joint Company Secretaries has confirmed that they have taken no less than 15 hours of professional trainings to update their skills and knowledge for the year ended 31 December 2022. The biographical details of Mr. Liu Yan and Ms. Cheung Ka Lun Karen are set out in the section headed "Profile of Directors and Senior Management" of this annual report.

AUDITORS

The financial statements contained in this annual report have been audited by ZHONGHUI ANDA CPA Limited. The remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services is set out below:

Services rendered	Amount (RMB'000)
Audit services	
— Former auditor	1,380
— Current auditor	2,700
Non-audit services	
— Former auditor	125
Total	4,205

The fees payable under non-audit services mainly included governance fees, traveling fees and others. The statement of the external auditors of the Company about its reporting responsibilities for the consolidated financial statements is set out in the independent auditors report of this annual report on page 75.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibilities for maintaining sound and effective internal controls and risk management system to safeguard the Shareholders' investment and the Group's assets at all times. The Board oversees the issuer's risk management and internal control systems on an ongoing basis, and conduct a review of the effectiveness of the Group's risk management and internal control systems at least annually. The review covers all material controls, including financial, operational and compliance controls, in order to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of Group's accounting, internal audit, financial reporting functions, as well as those relating to its ESG performance and reporting. The Group maintains internal manuals setting out operating procedures, internal control procedures and other policies and guidelines. The Group also adopted and implemented comprehensive risk management policies in various aspects of our business operations, such as IT, financial reporting, compliance, and human resources. The Company has established an internal audit mechanism for risk management, which is also an internal control monitoring and evaluation mechanism, i.e. the audit department is responsible for monitoring and evaluating risk management and internal control.

The Group has formulated and adopted risk management policy to provide direction in identifying, evaluating and managing significant risks. The main features of the risk management processes include risk identification, risk assessment and prioritisation, risk response, risk monitoring and risk reporting. Further details in relation to the main features of our risk management systems are as follows:

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 licences 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.

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. During the year ended 31 December 2022, we experienced certain incidents of loss or damage to our devices from customers during the subscription period, who indemnified us of RMB1.5 million (31 December 2021: RMB1.2 million), which were included in our other income. 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.

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 (小熊大數據智能授信平台V1.0), 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.

The Board confirms that it is responsible for the Group's risk management and internal control systems and regularly reviews the effectiveness of such systems; acknowledges that such risk management and internal control systems are designed to manage the risks associated with the achievement of business objectives but not to eliminate the risk of failure to achieve business objectives; and can only make reasonable rather than absolute assurance that no material misstatement or loss will result. A review of the effectiveness of the Group's risk management and internal control systems, including financial, operation and compliance controls, will be conducted by the Board at least annually.

The Board is of the view that there were room for improvements for the Group's risk management and internal control systems for the year ended 31 December 2022. The Group has appointed SHINEWING Risk Services Limited as an internal control consultant (the "**IC Consultant**") to perform an independent internal control review of the Group (the "**Independent Internal Control Review**") and has put in place the following measures to mitigate possible internal control risks:-

Key areas	Company's internal control measures
Idle cash management	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.
IPO Proceeds management	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. 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.

Significant matter reporting policy	The Company has established the "Significant Matters Reporting Policy", the "Notifiable Transaction Management Policy" and the "On-going Obligations Policy" to govern the identification, reporting and disclosure of significant matters.
Compliance for notifiable transaction	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 Policy", stipulating details including approval procedures and compliance requirements under the Listing Rules with regard to notifiable transactions. The new policy was approved by management and circulated to relevant staff.
	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.
Succession plan for senior management and Directors	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.
Whistle blowing policy	The Company has updated the existing policy for anti-bribery and anti-corruption, set up specific email address for reporting of bribery and corruption and improved procedures on preservation of confidentiality of relevant whistle blowers. The new policy was approved by management and circulated to staff of the Group.
Accounting system authority and chart of accounts	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 for review.
Investment activity system	The Company has established new investment policies and procedures which 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. The new policies and procedures were approved by management and circulated to relevant staff.
Corporate governance	The Company has circulated monthly reporting information on its business and financial performance starting from June 2023. 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 policy was approved by management.

Disclosure obligations	In addition to the relevant policies in place, the Company has engaged company secretarial service provider and legal adviser to ensure compliance with relevant requirements. The Company has established the "On-going Obligations Policy" to expand its existing policies and procedures to ensure the compliance with all relevant requirements under Chapter 13 of the Listing Rules. The new policy was approved by management and circulated to relevant staff.
Connected transactions	The Company has enhanced its connected transactions policies and procedures to ensure compliance with the Listing Rules. The enhanced policy was approved by management and circulated to relevant staff.

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 expanded, 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.

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. For details of the Independent Internal Control Review, please refer to the announcement of the Company dated 14 July 2023.

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.

The Company also has a whistle-blowing policy under which the human resources department investigate and report relevant incidents and would be subject to the monitoring of the presidents' office and the oversight of the Audit Committee. The whistle-blowing policy serves the purpose of establishing whistle-blowing procedures for employees and other relevant external parties of the Company, in order to report and escalate any suspicious misconducts. In accordance with the policy, the Group protects all whistle-blowers from any kind of retaliation. All the information provided by the whistle-blowers will be strictly confidential.

DISCLOSURE OF INSIDE INFORMATION

The Company has put in place an internal policy for the handling and disclosure of inside information in compliance with the SFO. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees a general guide in monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

DIVIDEND POLICY

The Company has adopted the Dividend Policy which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. The Dividend Policy aims to allow the Shareholders to participate in the Company's profits whilst to retain adequate reserves for future growth. Declaration of the dividends is subject to the discretion of our Directors, depending on the following factors:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

There is no assurance that dividends will be declared and paid in the amount set out in any plan of the Board or at all. 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. Our shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

SHAREHOLDERS' RIGHTS

The Company believes that effective communication with Shareholder is essential to enhance investor relations and to keep investors informed of the Group's business performance and strategies. The Company has established various and a wide range of communication channels with Shareholders, including general meeting, annual results and interim results, annual and interim reports, announcements and circulars and performance conference. To facilitate the communication between the Company and investors, the Company holds meetings, briefings and roadshows with investors and analysts from time to time. Shareholders may make enquires with the Company through channels mentioned below, and provide comments and recommendations to the Directors or managements at any time. Upon receipt of written enquiries from Shareholders, the Company will make actual responses to the Shareholders as soon as possible.

In addition, the Company updates its website from time to time to keep the Shareholders update of the recent development of the Company. The Company endeavours to maintain an ongoing dialogue with Shareholders. At the annual general meeting, the Directors (or their delegates as appropriate) will be available to meet with the Shareholders and answer their enquiries. Since the Listing Date, all corporate communications and regulatory announcements were published by the Company on its website and the website of the Stock Exchange in a timely manner. Based on a review of the initiatives taken as mentioned above, the Board considers that the shareholders communication policy is effective during the period from the Listing Date and up to 31 December 2022.

Procedures for Shareholders to convene an extraordinary general meeting

According to Articles 17.4 and 17.5 of the Articles of Association, general meetings can be convened on the written requisition of any 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 carrying the right to vote at general meetings of the Company. The 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. If within 21 days of such deposit the Directors fail to proceed to convene such meeting the requisitionist(s) himself (themselves) 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.

Procedures and contact details for putting forward proposals at Shareholders' meeting

The annual general meeting and other general meetings provide an important opportunity for Shareholders to express their views and the Company encourages and promotes Shareholder attendance and participation at general meetings.

The Board members, in particular, the chairman or his delegates, appropriate members of management team and external auditors of the Company will attend annual general meetings to answer Shareholders' questions.

Shareholders attending the annual general meeting and other general meetings are allowed to have a reasonable opportunity to ask questions regarding the items on the meeting agenda, including but not limiting to questions to the external auditor regarding the conduct of the audit and the preparation and content of the auditor's report.

The procedures by which enquires may be put to the Board and sufficient contact details to enable these enquires to be properly directed

If you have any query in connection with your shareholdings, please write to or contact the Company's Hong Kong share registrar, Tricor Investor Services Limited, at:

Address:	17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong
Tel:	(852) 2980 1333
Fax:	(852) 2810 8185

To contact the Company in relation to your query about the Company, the contact details are as follows:

Address:	501, 5th Floor, Cuilin Building, 10 Kaifeng Road, Maling District, Meilin Street, Futian District, Shenzhen, China
Email:	ir@lxrental.com

INVESTOR RELATIONS AND COMMUNICATIONS

The Company recognises the importance of effective communication with its Shareholders and investors to enhance investor relations and understanding of the Group's business performance and strategies. The Company is committed to maintaining an ongoing dialogue with its Shareholders through various means of communication. The Company has set up a website at www.bearrental.com as a channel to promote communication, publishing announcements, financial information and other relevant information of the Company. Shareholders are welcome to make enquiries directly to the Company via mail to our principal place of business in the PRC or via email at ir@lxrental.com. The Company will deal with all enquiries in a timely and appropriate manner but will not normally deal with verbal or anonymous enquiries.

The Board considers that its existing communication channels with its Shareholders and investors are effective in facilitating ongoing communication and dialogue between Shareholders and the Company. In line with the Company's commitment to transparency and accountability, the Board will continue to review and improve its communication policies and practises to ensure that the Shareholders' interests are safeguarded and their voices are heard.

CONSTITUTIONAL DOCUMENTS

During the period from the Listing Date to the date of this annual report, there has not been any change in the Company's Memorandum and Articles of Association. The Company's Memorandum and Articles of Association are available on the website of the Company (www.bearrental.com) and the website of the Stock Exchange (http://www.hkexnews.hk).

Directors' Report

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Group is principally engaged 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.

The activities and particulars of the Company's subsidiaries are shown under note 31 to the consolidated financial statements in this annual report. An analysis of the Group's business and financial performance for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 6 to the consolidated financial statements.

RESULTS

The consolidated results of the Group for the year ended 31 December 2022 are set out on pages 76–167 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of any final dividend for the year ended 31 December 2022. There is no arrangement under which a Shareholder has waived or agreed to waive any dividend.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 25 August 2023. Notice of the AGM will be published and issued to the Shareholders.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 22 August 2023 to Friday, 25 August 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend, speak and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Monday, 21 August 2023 for registration. Shareholders whose names appear on the register of members of the Company on Friday, 25 August 2023 are entitled to attend, speak and vote at the AGM.

BUSINESS REVIEW

A review of the Group's business during the year ended 31 December 2022, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this directors' report.

PRINCIPAL RISKS AND UNCERTAINTY

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not currently known to the Group or which may not be material now but could turn out to be material in the future.

Low gross margin for our device recycling business

Device recycling income accounted for 71.5% of our revenue for the Reporting Period (for the year ended 31 December 2021: 69.4%) and the gross profit margin for our device recycling business was 1.3% for the Reporting Period (for the year ended 31 December 2021: 3.1%). 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. 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.

Uncertainties brought by usage and demand of DLM solutions and our targeted markets in China

China's DLM market is still at an early stage in its development. 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 digitalisation for device management among SMEs in China; and (iv) the demands for replacing de-commissioned devices and growing ESG awareness in China. If there is a reduction in demand for our 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.

Pricing and sensitivity to economic downturns of our target customers

We may need to decrease prices of our services to stay competitive. 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. In addition, 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. 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.

Financial Risk

The Group's activities expose it to a variety of financial risks. For details of the financial risk management of the Group, please refer to note 32 to the consolidated financial statements.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHER STAKEHOLDERS

The Group recognises 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. By providing employees with an ideal working environment and opportunities for sustainable development, the Group and our employees improve and grow together. More details of our relationship with employees are set out in the section headed "Human Resources" in this annual report.

The Group maintains a good relationship with its customers and suppliers. We devote ongoing efforts to enhance customer satisfaction and improve service quality by maintaining 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. We also value collaboration with our business partners to achieve win-win solution. More details could be found in the section headed "Major Suppliers and Customers" in this annual report.

The Board believes effective communication and timely information disclosure builds the Shareholders' and investors' confidence, and also facilities the flow of constructive feedback that are beneficial for investor relations and future corporate development. For more details, please refer to the section headed "Corporate Governance Report" in this annual report.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four[1] financial years is set out on page 168 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the Group's largest customer accounted for 11.3% of the Group's total revenue while the Group's five largest customers accounted for 31.1% of the Group's total revenue.

During the Reporting Period, the Group's largest supplier accounted for 30.6% of the Group's total purchase while the Group's five largest suppliers accounted for 50.3% of the Group's total purchase.

At no time during the Reporting Period have the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the top five customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Details of the movements in property, plant and equipment and right-of-use assets of the Group during the Reporting Period are set out in note 16 to the consolidated financial statements.

1 The Shares were listed on the Main Board of the Stock Exchange on 24 November 2022.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 27 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the Reporting Period are set out in the consolidated statements of changes in equity and note 28 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's distributable reserves were RMB675.4 million.

BORROWINGS

As at 31 December 2022, the Group's bank borrowings were RMB329.4 million (31 December 2021: RMB211.6 million) and other borrowings were RMB221.6 million (31 December 2021: RMB330.0 million).

DIRECTORS

The Directors during the period from the Listing Date to 31 December 2022 and up to the date of this annual report were as follows:

Executive Directors

Mr. Hu Zuoxiong *(Chairman and Chief Executive Officer)*
Mr. Chen Xiuwei
Mr. Cao Weijun

Non-executive Director

Mr. Li Jing

Independent Non-executive Directors

Mr. Kam Chi Sing
Ms. Xu Nailing
Mr. Yao Zhengwang (appointed with effect from 11 April 2023)
Ms. Zhao Jinlin (resigned with effect from 11 April 2023)

In accordance with article 26.4 of the Articles of Association, Mr. Chen Xiuwei, Mr. Cao Weijun and Mr. Kam Chi Sing shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM.

In accordance with article 26.3 of the Articles of Association, Mr. Yao Zhengwang who was appointed as an independent non-executive Director with effect from 11 April 2023 and shall hold office only until the AGM and, being eligible, has offered himself for re-election at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to be sent to the Shareholders.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 25 to 30 in the section headed "Profile of Directors and Senior Management" to this annual report.

Saved as disclosed in this annual report, as at the date of this annual report, the Directors confirmed that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules and none of the Directors or senior management had any relationship with any other Directors or senior management.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent during the year ended 31 December 2022 and remain so as at the date of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three year, which may be terminated by not less than thirty days' notice in writing served by either party on the other.

Each of the non-executive Director and the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years, which may be terminated by not less than one month's notice in writing served by either party on the other.

The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Save as disclosed above, none of the Directors has entered into any service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation).

MANAGEMENT CONTRACTS

Other than the Directors' service contract and letters of appointment, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the period from the Listing Date to 31 December 2022.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, a permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has purchased the Directors' and Officers' Liability Insurance to provide protection against claims arising from the lawful discharge of duties by the Directors.

CHARITABLE DONATIONS

During the year ended 31 December 2022, the Group did not make charitable donations.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has put in place a Directors' and senior management's remuneration policy to determine the remuneration packages of Directors and senior management. The objective of remunerating the Directors and senior management is to ensure that there is an appropriate level of remuneration to attract and retain experienced people of high calibre to oversee the Group's business and development.

The remuneration of Directors and senior management is determined with reference to the skills and knowledge of the Directors and senior management, their job responsibilities and level of involvement in the Group's affairs, the performance and profitability as well as remuneration benchmark in the industry and the prevailing market conditions. Remuneration comprise salaries, allowances, benefits in-kind, performance related bonus, retirement benefits scheme contributions and share options or share awards.

Details of the emoluments of the Directors and chief executive and the respective remuneration of the five highest paid individuals for the year ended 31 December 2022 are set out in note 13 to the consolidated financial statements.

The remuneration payable to members of senior management by band for the year ended 31 December 2022 is set out below:

Remuneration level (RMB)	Number of persons
0–1,500,000	0
1,500,001–2,000,000	1
2,000,001–6,500,000	0
6,500,001–7,000,000	1

For the year ended 31 December 2022, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived or agreed to waive any emoluments for the year ended 31 December 2022.

HUMAN RESOURCES

The Group had 761 employees as at 31 December 2022, as compared to 831 employees as at 31 December 2021. As part of our human resources strategy, we offer employees remuneration consisting of salaries, performance-based bonuses, and other incentives including participation in employee incentive plans, all of which are determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

The Group is concerned about both the career development and self-development of its employees, and has provided on-board training for all of our employees as well as periodic training and seminars. We also strive to create a multiple-incentive mechanism and a friendly working environment to fulfil our employees' full potential.

EMPLOYEE INCENTIVE PLANS

1. LX Brothers Employee Incentive Plan

On 23 March 2022, the Company adopted the LX Brothers Employee Incentive Plan.

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 will provide the eligible participants with an opportunity to have a personal stake in the Company with a view to (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, incentivising, rewarding, remunerating, compensating and/or providing benefits to the eligible participants.

b. Participants

Any director, employee or senior management employee of the Group, including without limitation the chief executive officer, chief financial officer, chief operation officer or other officer or persons whom the designated committee of the Board considers, in its absolute discretion, have contributed or will contribute to our Group are eligible to participate in the LX Brothers Employee Incentive Plan.

c. 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 6.0% of the issued share capital of the Company upon the Capitalisation Issue and completion of the Global Offering, (i.e. 21,195,540 Shares). 17,880,602 Shares in aggregate, representing approximately 5.06% of the issued Shares as at the date of this annual report, was allotted and issued to LX Brothers, which is wholly owned by 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. No additional Shares will be issued in respect of the options granted and no options are available for further grant under the LX Brothers Employee Incentive Plan.

d. *Maximum entitlement of each participant*

There was no maximum entitlement for each participant under the LX Brothers Employee Incentive Plan. However, none of the grantee was granted with options which would result in the Shares granted to such individual under the Employee Incentive Plans representing in the aggregate more than 1% of the Shares issued as at the date of grant.

e. *Exercise period*

The exercise period of the options under the LX Brothers Employee Incentive Plan shall be determined by the committee of the Board, provided that the exercise period shall not be more than ten years from the date of grant.

f. *Amount payable on acceptance of the option*

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

g. *Exercise price and basis of determining the exercise price*

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.

h. *Duration*

The LX Brothers Employee Incentive Plan will remain in force for a period commencing from the adoption date and expiring on the date immediately after the date which is 10 years after the Listing Date, being 24 November 2022. As at the date of this annual report, the remaining life of the LX Brothers Employee Incentive Plan is approximately 9 years and 4 months.

In recognition of the contributions made by the employees of our Group towards our growth and success, on 1 April 2022, a total of 102 eligible participants were offered options to subscribe for an aggregate of 6,622,445 Shares (adjusted to 17,880,602 shares upon the Capitalisation Issue), representing approximately 5.06% of the issued Shares as at the date of this annual report, at an exercise price of HK$0.01 per Share. Such exercise price was determined based on the nominal value of the Share. As the Shares were not listed yet at the date of grant, the Shares had no closing price on the date immediately before the options were granted. Details of these participants and movements of the options granted during the year ended 31 December 2022 are as follows:

Categories of grantee	Granted during the year	Date of grant	Exercised during the year	Vested during year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2022
Employee participants							
1. Directors							
Mr. Hu	2,868,968	1 April 2022	–	–	–	–	2,868,968(1)
Mr. Chen Xiuwei	1,350,754	1 April 2022	–	–	–	–	1,350,754(2)
2. Five Highest Paid Individuals							
Five highest paid individuals other than the Directors	3,490,131	1 April 2022	–	–	–	–	3,490,131(3)
3. Other Employees							
Employees other than the Directors and the five highest paid individuals	10,170,749	1 April 2022	–	–	–	–	10,170,749(4)
Total	17,880,602						17,880,602

Notes:

(1) Subject to the vesting conditions stated in note (5) being met, 25% of the options shall vest on each of the first, second, third and fourth anniversary of the date of grant.

(2) Subject to the vesting conditions in note (5) being met, 50% of the options shall vest on each of the first and second anniversary of the date of grant.

(3) Subject to vesting conditions stated in note (5) being met, out of these 3,490,131 options granted, (i) for 1,296,000 options, 75% of the options shall vest on the first anniversary of the date of grant and the remaining 25% of the options shall vest on the second anniversary of the date of grant; and (ii) for 2,194,131 options, 25% of the options shall vest on each of the first, second, third and fourth anniversary of the date of grant.

(4) Subject to the vesting conditions stated in note (5) being met, out of these 10,170,749 options granted, (i) for 2,625,376 options, 50% of the options shall vest on each of the first and second anniversary of the date of grant; and, (ii) for 7,545,373 options, 25% of the options shall vest on each of the first, second, third and fourth anniversary of the date of grant.

(5) The Company will undergo a comprehensive assessment on the performance of the grantees an annual basis, where the grantee is ranked level S or A, all of the options of the current anniversary will be vested; where the grantee is ranked level B, only 50% of the options of the current anniversary will be vested; where the grantee is ranked any level below level B, no options of the current anniversary will be vested.

(6) Save as disclosed above, the options are not subject to any other exercising conditions or performance targets.

In relation to the estimated fair value of the options granted during the Reporting Period, please refer to note 38 to the consolidated financial statements.

2. Beauty Bear Employee Incentive Plan

On 1 April 2022, the Company adopted the Beauty Bear Employee Incentive Plan. The Beauty Bear Employee Incentive Plan consists of a share option scheme (i.e. the Beauty Bear Share Option Scheme) and a restricted share award scheme (i.e. the RSA Scheme). 30,000,000 Shares in aggregate, representing approximately 8.49% of the issued Shares as at the date of this annual report, was allotted and issued to Beauty Bear, which 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.

2.1. Beauty Bear Share Option Scheme

a. *Purpose*

The Beauty Bear Share Option Scheme was adopted by the Board pursuant to the written resolutions passed on 1 April 2022. It was established to recognise and acknowledge the contributions that the eligible participants had or may have made to our Group. The Beauty Bear Share Option Scheme will provide the eligible participants with an opportunity to have a personal stake in the Company with a view to (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, incentivising, rewarding, remunerating, compensating and/or providing benefits to the eligible participants.

b. *Participants*

Any director, employee or senior management employee of the Group, including without limitation the chief executive officer, chief financial officer, chief operation officer or other officer or persons whom the designated committee of the Board considers, in its absolute discretion, have contributed or will contribute to our Group are eligible to participate in the Beauty Bear Share Option Scheme.

c. *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Beauty Bear Share Option Scheme shall not in aggregate exceed 10% of the issued Shares immediately after completion of the Global Offering, i.e. 35,325,900 Shares, representing approximately 10% of the total issued Shares of the Company as at the date of this annual report.

d. *Maximum entitlement of each participant*

Pursuant to Rule 17.03D of the Listing Rules, to the extent any grant of an option or award to an eligible individual would result in the Shares issued or to be issued in respect of all options and awards granted to such individual under the Employee Incentive Plans (excluding any options and awards that have been lapsed in accordance with the terms of the Plan) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued Shares, such grant must be separately approved by the shareholders of the Company with such individual and his/her close associates (or associates if such individual is a connected person) abstaining from voting.

e. *Exercise period and vesting period*

The exercise period of the options shall be 10 years from the date of grant. Subject to the terms of the Beauty Bear Share Option Scheme, 25% of the options shall vest on the first anniversary of the date of grant, 25% of the options shall vest on the second anniversary of the date of grant, 25% of the options shall vest on the third anniversary of the date of grant and 25% of the options shall vest on the fourth anniversary of the date of grant.

f. *Amount payable on acceptance of the option*

Upon acceptance of the option, the grantee shall pay HK$1.00 to our Company by way of consideration for the grant.

g. *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.

h. *Exercise price and basis of determining the exercise price*

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, subject to applicable Listing Rules.

i. *Duration*

The Beauty Bear Share Option Scheme shall be valid and effective for the period commencing on the adoption date and expiring on the day immediately after the date which is 10 years after the Listing Date, being 24 November 2022. As at the date of this annual report, the remaining life of the Beauty Bear Share Option Scheme is approximately 9 years and 4 months.

j. *Number of options available for grant*

The number of Shares in respect of which options are available for grant under the Beauty Bear Share Option Scheme as at the Listing Date and as at 31 December 2022 was 35,325,900.

From the adoption date of the Beauty Bear Share Option Scheme and up to 31 December 2022, no option has been granted or agreed to be granted under the Beauty Bear Share Option Scheme.

2.2. The RSA Scheme

a. Purpose

The RSA Scheme was adopted by the Board pursuant to the written resolutions passed on 1 April 2022 and amended by written resolutions passed on 17 October 2022. It was established 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 of the RSA Scheme.

b. Participants

Any Director, employee or any other person that, in the opinion of the designated committee of the Board in its sole and absolute discretion, will contribute materially to the successful operation of our Group are eligible to participate in the RSA Scheme.

c. RSA Awards

An award under the RSA Scheme (the "**Award(s)**") gives a participant a conditional right when the Award vests to obtain Shares on or about the date of vesting, as determined by the committee of the 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. Maximum entitlement of each participant

Pursuant to Rule 17.03D of the Listing Rules, to the extent any grant of an option or award to an eligible individual would result in the Shares issued or to be issued in respect of all options and awards granted to such individual under the Employee Incentive Plans (excluding any options and awards that have been lapsed in accordance with the terms of the Plan) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued Shares, such grant must be separately approved by the shareholders of the Company with such individual and his/her close associates (or associates if such individual is a connected person) abstaining from voting.

e. 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 cancelled in accordance with the rules of the RSA Scheme) will exceed 10% of the number of Shares in issue from time to time, i.e. 35,325,900 Shares as at 31 December 2022, representing approximately 10% of the total issued Shares as at the date of this annual report.

f. *Exercise period and vesting period*

The exercise period of the Awards shall be 10 years from the date of grant. The relevant vesting period shall be determined by the designated committee of the Board and such committee shall transfer to and vest in any participant of the RSA Scheme 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 participant as specified in the relevant award shares agreement have been attained or paid.

g. *Amount payable on acceptance of the Awards*

Upon acceptance of the Awards, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

h. *Performance target*

A Participant may be required to achieve any performance targets as our Board may then specify in the Award.

i. *Vesting price and basis of determining the vesting price*

Where applicable, the vesting price per Share in respect of any particular Award granted under the RSA Scheme shall be determined by the committee of the Board and included in the letter to the grantee containing the offer of Awards, which could be a fixed or variable figure with reference to various factors as determined by the committee of our Board, subject to applicable Listing Rules.

j. *Duration*

The RSA Scheme shall be valid and effective for the period of 10 years commencing on the adoption date of the RSA Scheme, being 1 April 2022, but may be terminated earlier as determined by the Board in accordance with the terms of the RSA Scheme. As at the date of this annual report, the remaining life of the RSA Scheme is approximately 8 years and 8 months.

k. *Number of Awards available for grant*

The number of Shares in respect of which Awards are available for grant under the RSA Scheme as at the Listing Date and as at 31 December 2022 was 29,325,900.

On 1 April 2022, 2,222,222 award Shares (as adjusted to 6,000,000 Shares after the Capitalisation Issue, as defined in the Prospectus), representing approximately 1.70% of the issued Shares as at the date of this annual report, were granted to Mr. Hua, an employee of the Group, at a vesting price of HK$0.01 per Share. Such vesting price was determined based on the nominal value of the Share. As the Shares were not listed yet at the date of grant, the Shares had no closing price on the date immediately before the Awards were granted. Save as disclosed above, no other Award had been granted or agreed to be granted under the RSA Scheme as at 31 December 2022. Details of the participant and movements of the Awards granted during the year ended 31 December 2022 are as follows:

Categories of Grantee	Granted during the year (Shares)	Date of grant	Exercised during the year	Vested during year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2022
Employee participants							
Mr. Hua	6,000,000[(1)(2)]	1 April 2022	–	–	–	–	6,000,000

Notes:

(1) The Company will undergo a comprehensive assessment on the performance of the grantee on an annual basis, where the grantee is ranked level S or A, all of the Awards of the current anniversary will be vested; where the grantee is ranked level B, only 50% of the Awards of the current anniversary will be vested; where the grantee is ranked any level below level B, no Awards of the current anniversary will be vested. Subject to the aforesaid vesting conditions being met, the Awards shall vest on each of the first, second, third and fourth anniversary of the date of grant.

(2) Save as disclosed in (1) above, the Awards granted are not subject to any other performance targets.

In relation to the estimated fair value of the Awards granted, please refer to note 38 to the consolidated financial statements.

As at 31 December 2022, no additional Shares may be issued in respect of the options and Awards granted under all Employee Incentive Plans.

RETIREMENT BENEFITS SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund Schemes in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme. As of 31 December 2022, no forfeited contribution under this retirement benefits scheme is available to reduce the contribution payable in future years. Further details in relation to the retirement benefits scheme is set out in note 29 to the consolidated financial statements.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 December 2022, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in Shares or underlying Shares of the Company

Name of Director	Nature of interest	Number of ordinary shares interested[1]	Approximate percentage in the Company's issued share capital
Mr. Hu	Interest in controlled corporations[2][3][4][5]	139,182,407 Shares (L)	39.40%
	Beneficial owner[6]	2,868,968 Shares (L)	0.81%
	Total	142,051,375 Shares (L)	40.21%
Mr. Chen Xiuwei	Beneficial owner[6]	1,350,754 Shares (L)	0.38%

Note:

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

(2) Bear Family is interested in 75,107,558 Shares and 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) Beauty Bear is interested in 30,000,000 Shares. The entire issued share capital of Beauty Bear is held by Teeroy Trust, who was entrusted by the Company to hold such shares for the Beauty Bear Employee Incentive Plan. Pursuant to the deed of trust signed by the Company and Teeroy Trust, Teeroy Trust will exercise the voting rights in the 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) Little Bear is interested in 19,063,215 Shares. 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) LX Brothers is interested in 17,880,602 Shares. The entire issued share capital of LX Brothers is held by Tricor Trust, who was entrusted by the Company to hold such Shares for the purpose of the LX Brothers Employee Incentive Plan. Pursuant to the deed of trust signed by the Company and Tricor Trust, Tricor Trust will exercise the voting rights in the 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 2,868,968 and 1,350,754 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 "Employee Incentive Plans — 1. LX Brothers Employee Incentive Plan" in this annual report.

Interest in shares of associated corporation

Name of Director	Associated corporation	Capacity/nature of interest	Number of shares	Approximate percentage of shareholding interest
Mr. Hu	Bear Family	Beneficial owner	1 share (L)	100%
	Little Bear	Beneficial owner; interest in a controlled corporation	10,000 shares (L)	100%
	LX Brothers	Beneficial owner; interest in a controlled corporation	1 share (L)	100%
	Beauty Bear	Interest in a controlled corporation	1 share (L)	100%

Note:

(1) The letter "L" denotes the person's long position in the shares of the associated corporation.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2022, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DEBENTURES

The Company did not issue any debentures for the year ended 31 December 2022.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2022 were there any rights to acquire benefits by means of the purchase of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no subsisting arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as our Directors are aware, as at 31 December 2022, the following persons (other than the Directors or chief executive) had an interests or short positions in the Shares or underlying Shares as required in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of ordinary shares interested[1]	Approximate percentage in the Company's issued share capital
Bear Family	Beneficial owner	75,107,558 Shares (L)	21.26%
Hunan TV and Broadcast Intermediary Co., Ltd. (湖南電廣傳媒股份有限公司) ("**Hunan TVBI**")	Interest in controlled corporations[2]	46,335,877 Shares (L)	13.12%
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**")	Interest in controlled corporations[3]	46,335,877 Shares (L)	13.12%
Shanghai Tongyun Information Technology Partnership (LLP) (上海通韞信息技術合夥企業(有限合夥)) ("**Shanghai Tongyun**")	Interest in controlled corporations[4]	32,941,239 Shares (L)	9.32%
UBS Trustees (B.V.I.) Limited	Trustee[5]	39,645,968 Shares (L)	11.22%
Mr. Liu Qiangdong Richard ("**Mr. Liu**")	Beneficiary of a trust[5]	39,645,968 Shares (L)	11.22%
Mr. Chen Wei	Interest in a controlled corporation[6]	36,910,391 Shares (L)	10.45%
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**")	Interest in a controlled corporation[6]	36,910,391 Shares (L)	10.45%
Beauty Bear	Beneficial owner[7]	30,000,000 Shares (L)	8.49%
Little Bear	Beneficial owner[8]	19,063,215 Shares (L)	5.40%
Mr. Hua	Interest in a controlled corporation[9]	18,528,528 Shares (L)	5.25%
	Beneficial owner[10]	6,000,000 Shares (L)	1.70%
	Total	24,528,528 Shares (L)	6.94%
LX Brothers[11]	Beneficial owner	17,880,602 Shares (L)	5.06%

Notes:

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

(2) 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.

(3) 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 (有限合夥)) ("**Dachen Chuangyuan ODI**") hold 32,941,239 Shares, 8,656,664 Shares and 4,737,974 Shares, respectively. Dachen Management is the sole general partner of Dachen Chuangtong BVI, Dachen Chuangjing BVI and Dachen Chuangyuan ODI.

(4) Dachen Chuangtong BVI is wholly-owned by Shanghai Tongyun. By virtue of the SFO, Shanghai Yongyun is deemed to be interested in the Shares held by Dachen Chuangtong BVI.

(5) Tigris Innovation Limited ("**JD BVI**") which holds 39,645,968 Shares is wholly-owned by JD.com Investment Limited, which in turn is wholly-owned by JD.com. JD.com is controlled, in terms of voting power, as to 70.4% by Max Smart Limited as at 28 February 2023. Max Smart Limited, a company incorporated in British Virgin Islands, is wholly-owned by UBS Nominees Limited on behalf of The Max Smart Trust, with UBS Trustees (B.V.I.) Limited as the trustee and Mr. Liu as a beneficiary.

(6) Shanghai Yujun Enterprise Management Partnership (LLP) (上海譽竣企業管理合夥企業(有限合夥)) ("**Shanghai Yujun**") holds 36,910,391 Shares and was 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 and SME Development Fund (Shenzhen Nanshan LLP) (中小企業發展基金(深圳南山有限合夥)) ("**SME Fund**") is the only limited partner which holds more than one-third of the interest in Shanghai Yujun. SME Fund was also managed by Shenzhen OFC, which in turn was owned as to 51% by Shenzhen OFC Investment. Shenzhen OFC Investment was ultimately beneficially owned by Mr. Chen Wei.

(7) The entire issued share capital of Beauty Bear is held by Teeroy Trust, who was entrusted by the 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. For details of interests held by Mr. Hu, please refer to the section headed "Interests of Directors and Chief Executive in securities — Interest in Shares or Underlying Shares of the Company" in this annual report.

(8) 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. As the voting rights of Little Bear are exercised by Mr. Hu, by virtue of the SFO, Mr. Hu is deemed to be interested in the Shares held by Little Bear. For details of interests held by Mr. Hu, please refer to the section headed "Interests of Directors and Chief Executive in securities — Interest in Shares or Underlying Shares of the Company" in this annual report.

(9) Gold Bear Technology Limited is wholly owned by Mr. Hua. By virtue of the SFO, Mr. Hua is deemed to be interested in the Shares held by Gold Bear Technology Limited. Mr. Hua has been granted award shares with respect to 6,000,000 outstanding Shares under the RSA Scheme of Beauty Bear Employee Incentive Plan. These Shares are currently held by Teeroy Trust (see note (7) above). For details, please refer to the section headed "Employee Incentive Plans — 2. Beauty Bear Employee Incentive Plan" in this annual report.

(10) Mr. Hua has been granted Awards with respect to 6,000,000 outstanding Shares under the RSA Scheme. These Shares are currently held by Teeroy Trust (see note (7) above). For details, please refer to the section headed "Employee Incentive Plans — 2. Beauty Bear Employee Incentive Plan — 2.2. The RSA Scheme" in this annual report.

(11) The entire issued share capital of LX Brothers is held by 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. For details of interests held by Mr. Hu, please refer to the section headed "Interests of Directors and Chief Executive in securities — Interest in Shares or Underlying Shares of the Company" in this annual report.

Save as disclosed herein, as at 31 December 2022, our Directors are not aware of any persons (other than the Directors or chief executive) who had an interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

MATERIAL INTERESTS OF DIRECTORS IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

For the year ended 31 December 2022, save as disclosed in the section headed "Related Party Transactions" in note 36 to the consolidated financial statements, no Director or any entity connected with the Directors was materially interested in, either directly or indirectly, any transactions, arrangements or contracts of significance relating to the business of the Company to which the Company or any of its subsidiaries is a party.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

LOAN AND GUARANTEE

During the year ended 31 December 2022, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the Controlling Shareholders or their respective connected persons.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

As at 31 December 2022, the Company does not have any disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance was entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of its subsidiaries, and no contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries was entered into during the year ended 31 December 2022.

CONNECTED TRANSACTIONS

During the Reporting Period, the Company has strictly complied with the requirements specified under Chapter 14A of the Listing Rules in respect of its continuing connected transactions. Details of the relevant continuing connected transactions are as follows:

Continuing Connected Transaction Subject to the Reporting, Annual Review and Announcement Requirements

1. ***Subscription Services***

   On 25 October 2022, the Company entered into a subscription services framework agreement (the "**Subscription Services Framework Agreement**") with Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) ("**Beijing JD**"), pursuant to which the Group agreed to provide device subscription services and IT technical subscription services to JD Group (the "**Subscription Services**") and charge certain subscription fee for a term commencing from the Listing Date to 31 December 2024.

   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.

   For the year ended 31 December 2022, the transaction amount in respect of the Subscription Services Framework Agreement amounted to approximately RMB5.4 million, which is within the annual cap (as revised from time to time) of RMB6.0 million. It is estimated that the maximum annual fees to be charged for the Subscription Services for each of the two years ending 31 December 2024 will not exceed RMB9.0 million and RMB13.0 million, respectively.

2. ***Purchase of Devices***

   On 25 October 2022, the Company entered into a purchase framework agreement (the "**Purchase Framework Agreement**") with Beijing JD, pursuant to which the Group will purchase from JD Group certain new and second-hand devices, including but not limited to desktop, laptop computers, printers and photocopiers for a term commencing from the Listing Date to 31 December 2024.

   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.

   For the year ended 31 December 2022, the transaction amount in respect of the Purchase Framework Agreement amounted to approximately RMB16.9 million, which is within the annual cap of RMB43.0 million. It is estimated that the maximum annual amount payable by our Group under the Purchase Framework Agreement for each of the two years ending 31 December 2024 will not exceed RMB46.0 million and RMB50.0 million, respectively.

3. Marketing, Promotion and Maintenance Services

On 25 October 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**") for a term commencing from the Listing Date to 31 December 2024.

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.

For the year ended 31 December 2022, the transaction amount in respect of the Marketing, Promotion and Maintenance Services Framework Agreement amounted to approximately RMB17.0 million, which is within the annual cap of RMB24.0 million. It is estimated that the maximum annual amount payable by our Group under the Marketing, Promotion and Maintenance Services Framework Agreement for each of the two years ending 31 December 2024 will not exceed RMB25.0 million and RMB30.0 million, respectively.

Beijing JD is ultimately controlled by JD.com, the controlling shareholder of one of our substantial shareholders, JD BVI. Beijing JD is an associate of JD BVI. Therefore, it is a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transactions contemplated under the (i) Subscription Services Framework Agreement, (ii) Purchase Framework Agreement and (iii) Marketing, Promotion and Maintenance Services Framework Agreement constitute continuing connected transactions for our Group under Chapter 14A of the Listing Rules.

Save as disclosed above, during the year ended 31 December 2022, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

Confirmations

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions carried out during the Reporting Period and confirm the transactions thereunder had been entered into:

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

(ii) on normal commercial terms or better; and

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

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their letter confirming that nothing has come to their attention that causes them to believe that the Group's continuing connected transactions disclosed in this annual report :

a. have not been approved by the Board;

b. were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

c. were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. have exceeded the annual caps as set by the Company.

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended 31 December 2022 has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2022 are set out in note 36 to the consolidated financial statements.

During the Reporting Period, none of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

MATERIAL LITIGATION

During the year ended 31 December 2022, the Group was not engaged in any material litigation or arbitration which could have a material effect on its financial condition or results of operations. So far as the Directors are aware, no such litigation or arbitration of material importance is pending or threatened against the Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date and up to 31 December 2022.

As set out in the Prospectus, the Company offered an aggregate of 53,259,000 new Shares as part of the Global Offering. The securities of the Company were listed on the Stock Exchange on the Listing Date.

PROCEEDS FROM THE LISTING

The Shares were successfully listed on the Stock Exchange on the Listing Date, and 353,259,000 Shares were issued. After deduction of underwriting fees and related expenses, the Net Proceeds from the Listing were approximately HK$338.1 million (approximately RMB307.9 million) (the "**Net Proceeds**"). The Group intends to use the net proceeds in accordance with the method and schedule set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

An analysis of the utilisation of the Net Proceeds is set out below:

Planned use of proceeds	% of Net Proceeds	Amount of Net Proceeds (RMB million)	Utilised Net Proceeds as at 31 December 2022 (RMB million)	Unutilised Net Proceeds as at 31 December 2022 (RMB million)	Expected timeline for full utilisation
To improve customer experience to satisfy the evolving customer demands:	**45**	**138.55**	**–**	**138.55**	**31 December 2025**
(i) 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.	30	92.37	–	92.37	31 December 2025
(ii) To continue to refurbish and upgrade de-commissioned IT devices to extend their service life and upgrade their performance and improve customer experience	10	30.79	–	30.79	31 December 2025
(iii) 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	5	15.39	–	15.39	31 December 2025
To expand customer base and our market share in targeted markets:	**25**	**76.98**	**–**	**76.98**	**31 December 2028**
(i) 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	12.5	38.49	–	38.49	31 December 2028
(ii) To enhance our brand awareness and industry influence through online and offline marketing and brand promotion, and increase awareness and engagement of customers	12.5	38.49	–	38.49	31 December 2028
– to increase our online customer acquisition by engaging in search engines and social media advertising	9	27.71	–	27.71	31 December 2028
– to cover our increased advertising expenditure to strengthen our brand awareness	3.5	10.78	–	10.78	31 December 2028

Directors' Report

Planned use of proceeds	% of Net Proceeds	Amount of Net Proceeds (RMB million)	Utilised Net Proceeds as at 31 December 2022 (RMB million)	Unutilised Net Proceeds as at 31 December 2022 (RMB million)	Expected timeline for full utilisation
For system upgrade and product development	**15**	**46.18**	**–**	**46.18**	**31 December 2028**
(i) to further enhance technology capabilities and upgrade system infrastructure to improve our operational efficiency, asset management efficiency and asset utilisation rate	11	33.87	–	33.87	31 December 2028
– to recruit research and development staff	9.5	29.25	–	29.25	31 December 2028
– to invest in system server resources and software license fee	1.5	4.62	–	4.62	31 December 2028
(ii) 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	2	6.16	–	6.16	31 December 2028
– to recruit IoT engineers and IoT product managers and pay for their salaries	1.3	4.00	–	4.00	31 December 2028
– to purchase smart hardware devices, related consumables and server resources	0.7	2.16	–	2.16	31 December 2028
(iii) 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	2	6.16	–	6.16	31 December 2028
– to recruit research and development staff and pay for their salaries	1.5	4.62	–	4.62	31 December 2028
– to purchase designated devices for the development of customers service portals with third-party business partners	0.5	1.54	–	1.54	31 December 2028
To strengthen our risk management capabilities	**5**	**15.40**	**–**	**15.40**	**31 December 2028**
(i) 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 optimise our intelligent credit granting, anti-fraud and early risk warning systems to improve the efficiency and accuracy of risk assessment	2.5	7.70	–	7.70	31 December 2028
(ii) To establish internal and offline risk control teams, and improve online and offline integrated risk control capabilities	2.5	7.70	–	7.70	31 December 2028
– to recruit risk control personnel and pay for their salaries	2	6.16	–	6.16	31 December 2028
– for third-party data system	0.5	1.54	–	1.54	31 December 2028
For working capital and general corporate purposes	**10**	**30.79**	**–**	**30.79**	**31 December 2028**
Total	**100**	**307.90**			

Reference was made to the announcement of the Company dated 14 July 2023, during the period from November 2022 to March 2023, part of the Net Proceeds was used to fund the subscription of a fund of Fund Company A (the "**Subscription**") with an aim to better manage the idle cash of the Company. In March 2023, the Subscription was fully redeemed together with the agreed interest. Subsequent to the redemption of the Subscription and up to the date of this report, the unutilised Net Proceeds were placed with commercial banks licensed in Hong Kong or the PRC. The unutilised Net Proceeds and the above timeline of intended utilisation will be applied in the manners disclosed by the Company. However, the expected timeline for the unutilised Net Proceeds is based on the Directors' best estimation barring unforeseen circumstances, and would be subject to change based on the future development of the Group's business and the market conditions.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

EQUITY LINKED AGREEMENTS

For the year ended 31 December 2022, other than the Employee Incentive Plans as disclosed above, no equity-linked agreement was entered into by the Group or still in effect.

SUFFICIENCY OF PUBLIC FLOAT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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. 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. During the Reporting Period, the Group was in compliance with all relevant ESG laws and regulations in material aspects. Further details of the Group's environmental policies and performance, please refer to the Environmental, Social and Governance Report published by the Company on the Company's website (www.bearrental.com) and the HKEXnews website (www.hkexnews.hk).

AUDITOR

From the Listing Date and up to 31 December 2022, Deloitte Touche Tohmatsu was the auditor of the Company. With effect from 21 April 2023, Deloitte Touche Tohmatsu resigned as auditor of the Company. On 5 May 2023, ZHONGHUI ANDA CPA Limited was appointed as the auditor of the Company. For details, please refer to the announcements of the Company dated 28 April 2023 and 5 May 2023, respectively. An ordinary resolution will be proposed at the AGM to ratify, confirm and approve the appointment of ZHONGHUI ANDA CPA Limited as the auditor of the Company during the period from 5 May 2023 to the date of the AGM, to authorise the Board to fix their remuneration and to ratify, confirm, approve and adopt all actions previously taken by any and all of the Directors in relation to the aforesaid resolutions. A separate ordinary resolution will be proposed at the AGM for the re-appointment of ZHONGHUI ANDA CPA Limited as auditor of the Company. The consolidated financial statements for the year ended 31 December 2022 have been audited by ZHONGHUI ANDA CPA Limited.

For and on behalf of the Board
Hu Zuoxiong
Chairman

Hong Kong, 12 July 2023

Independent Auditors' Report

中汇
ZHONGHUI

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LX TECHNOLOGY GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of LX Technology Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 76 to 167, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

OCCURRENCE OF REVENUE FROM SALES OF MOBILE DEVICES UNDER DEVICES RECYCLING BUSINESS

Refer to Notes 6 to the consolidated financial statements

We identified occurrence of revenue from sales of mobile devices under devices recycling business as a key audit matter due to its quantitative significance to the consolidated statement of profit or loss and other comprehensive income.

The sales of mobile devices under devices recycling business are recognised as revenue 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 the customer's designated locations or picked up by the customer. The Group has recognised revenue from sales of mobile devices recycling business approximately to RMB798,316,000 for the year ended 31 December 2022.

Our audit procedures included, among others:

— Obtaining an understanding of the revenue business process regarding sales of mobile devices under devices recycling business;

— Understanding the Group's accounting policy of revenue from sales of mobile devices under devices recycling recognition in accordance with IFRS 15 Revenue from Contracts with Customers; and

— Tracing recorded sales of mobile devices under devices recycling business during the year, on a sample basis, to supporting documents including invoices, delivery information and settlement information to assess the revenue recognition.

We consider that the occurrence of revenue from sales of mobile devices under devices recycling business is supported by the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:
https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre
This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Audit Engagement Director
Practising Certificate Number P03614

Hong Kong, 12 July 2023

Consolidated Statement of Profit or Loss And Other Comprehensive Income

for the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	6	1,664,049	1,330,402
Cost of sales		(1,464,774)	(1,137,266)
GROSS PROFIT		199,275	193,136
Other income	7	18,606	14,861
Other gains and losses	8	(4,014)	—
Fair value change of financial liabilities at fair value through profit or loss ("**FVTPL**")	26	197,680	(433,916)
Impairment losses under expected credit loss model, net of reversal		(1,716)	(1,970)
Distribution and selling expenses		(125,709)	(115,906)
Administrative expenses		(86,771)	(40,497)
Research and development expenses		(27,493)	(18,280)
Finance costs	9	(42,425)	(36,301)
Listing expenses		(31,735)	(7,398)
PROFIT/(LOSS) BEFORE TAX	10	95,698	(446,271)
Income tax credit/(expense)	11	4,250	(2,431)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		99,948	(448,702)
EARNINGS/(LOSS) PER SHARE	15		
— Basic (RMB)		0.72	(3.73)
— Diluted (RMB)		(0.38)	(3.73)

Consolidated Statement of Financial Position

as at December 31, 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment and right-of-use assets	16	802,861	753,908
Deposits paid for acquisition of property, plant and equipment		244	1,773
Other receivables, deposits and prepayments	20	4,676	6,370
Restricted deposits	22	12,818	20,233
Deferred tax assets	17	13,186	5,481
Total non-current assets		833,785	787,765
Current assets			
Inventories	18	76,630	74,307
Trade and lease receivables	19	64,879	53,440
Other receivables, deposits and prepayments	20	112,604	134,329
Tax recoverable		1,159	—
Financial assets at FVTPL	21	300,811	—
Restricted deposits	22	14,719	9,423
Cash and cash equivalents	22	156,274	118,553
Total current assets		727,076	390,052
Current liabilities			
Trade payables, other payables and accruals	23	185,763	126,689
Tax liabilities		19	24
Borrowings	25	406,358	390,424
Lease liabilities	25	6,424	10,454
Contract liabilities	24	425	1,498
Total current liabilities		598,989	529,089
Net current assets/(liabilities)		128,087	(139,037)
Total assets less current liabilities		961,872	648,728
Non-current liabilities			
Borrowings	25	144,556	151,160
Lease liabilities	25	6,495	10,709
Financial liabilities at FVTPL	26	—	1,117,083
Deferred tax liabilities	17	3,509	—
Total non-current liabilities		154,560	1,278,952
NET ASSETS/(LIABILITIES)		807,312	(630,224)
Capital and reserves			
Share capital/paid-up capital	27	3,158	54,156
Reserves		804,154	(684,380)
TOTAL EQUITY		807,312	(630,224)

The consolidated financial statements on pages 76 to 167 were approved and authorised for issue by the board of directors on 12 July 2023 and are signed on its behalf by:

HU ZUOXIONG
Executive Director

CHEN XIUWEI
Executive Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

	Paid-up capital/ share capital RMB'000	Share premium* RMB'000	Statutory surplus reserve* RMB'000 *(note i)*	Other reserves* RMB'000 *(note ii)*	Share-based payments reserve* RMB'000	Accumulated losses* RMB'000	Total equity RMB'000
At 1 January 2021	55,000	–	3,346	8,037	–	(236,271)	(169,888)
Total comprehensive expenses for the year	–	–	–	–	–	(448,702)	(448,702)
Effect of Series D-3 Capital Transfer (as defined and detailed in note 26)	(844)	–	–	(10,790)	–	–	(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)
At 1 January 2022	**54,156**	**–**	**5,748**	**(2,753)**	**–**	**(687,375)**	**(630,224)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**99,948**	**99,948**
Effect of reorganisation *(note 2)*	**(54,156)**	**–**	**–**	**54,156**	**–**	**–**	**–**
Allotment on 19 January 2022 *(note 27(ii))*	**366**	**–**	**–**	**(366)**	**–**	**–**	**–**
Allotment on 25 March 2022 *(note 27(iv))*	**144**	**–**	**–**	**(144)**	**–**	**–**	**–**
Redesignated as preferred shares on 28 March 2022 *(note 27(v))*	**(5)**	**–**	**–**	**5**	**–**	**–**	**–**
Recognition of equity-settled share-based payments *(note 38)*	**–**	**–**	**–**	**–**	**71,150**	**–**	**71,150**
Capitalisation issue *(as defined and detailed in note 27 (vi))*	**1,720**	**(1,720)**	**–**	**–**	**–**	**–**	**–**
Automatic conversion of preferred shares to ordinary shares upon initial public offering ("**IPO**") *(note 26)*	**448**	**918,955**	**–**	**–**	**–**	**–**	**919,403**
Issue of shares pursuant to IPO *(note 27 (vi))*	**485**	**368,121**	**–**	**–**	**–**	**–**	**368,606**
Transaction costs directly attributable to issue of new shares in the IPO	**–**	**(21,571)**	**–**	**–**	**–**	**–**	**(21,571)**
Transfer to statutory surplus reserve	**–**	**–**	**987**	**–**	**–**	**(987)**	**–**
At 31 December 2022	**3,158**	**1,263,785**	**6,735**	**50,898**	**71,150**	**(588,414)**	**807,312**

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 under China Accounting Standards for Business Enterprises 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 Shenzhen**") other than those investors of Series of Investments (as defined and detailed in notes 2 and 27), the effect arising from acquisition of non-controlling interests in subsidiaries in prior years, Series D-3 Capital Transfer (as defined and detailed in note 27(ii)), the Group Reorganisation (as defined and detailed in note 2) and the ordinary shares allotted and issued to employee incentive platforms of the Group.

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	95,698	(446,271)
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets	236,700	193,343
Fair value change of financial assets at FVTPL	(215)	—
Fair value change of financial liabilities at FVTPL	(197,680)	433,916
Finance costs	42,425	36,301
Gain on disposal of property, plant and equipment	(1,555)	—
Impairment losses under expected credit loss model, net of reversal	1,716	1,970
Interest income	(750)	(669)
Write-down/(reversal of write-down) of inventories	57	(1,012)
Share-based payments expense	71,150	—
Operating cash flows before movements working capital	247,546	217,578
Change in inventories	27,983	131,966
Change in trade and lease receivables	(13,155)	(18,303)
Change in other receivables, deposits and prepayments	21,026	(2,779)
Change in trade payables, other payables and accruals	61,140	(46,764)
Change in contract liabilities	(1,074)	(2,729)
Cash generated from operations	343,466	278,969
Income tax paid	(1,110)	(189)
Net cash generated from operating activities	342,356	278,780
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	750	669
Purchase of property, plant and equipment	(327,920)	(439,541)
Purchase of financial assets at FVTPL	(306,425)	—
Proceeds on disposal of property, plant and equipment	33,729	—
Deposits paid for acquisition of property, plant and equipment	(244)	(1,773)
Placement of restricted deposits	(11,304)	(19,731)
Withdrawal of restricted deposits	13,423	9,402
Placement of rental deposits	(215)	(366)
Withdrawal of rental deposits	281	366
Net cash used in investing activities	(597,925)	(450,974)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(42,425)	(36,606)
Repayments of borrowings	(615,890)	(376,092)
Repayments of lease liabilities	(9,506)	(8,421)
New borrowings raised	605,963	567,871
Proceeds from issue of financial liabilities at FVTPL	473,134	65,000
Payments for capital reduction of LX Shenzhen *(note 2)*	(473,134)	—
Payments of accrued issue costs	(19,287)	(1,383)
Proceeds from IPO	368,606	—
Net cash generated from financing activities	287,461	210,369
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,892	38,175
CASH AND CASH EQUIVALENTS AT 1 JANUARY	118,553	80,378
Effect of foreign exchange rate changes	5,829	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by	156,274	118,553
Bank balances and cash	156,274	118,553

Notes to The Consolidated Financial Statements

for the year ended 31 December 2022

1. GENERAL INFORMATION

LX Technology Group Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability on 10 January 2022 under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") effective from 24 November 2022. The respective addresses of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and principal place of business is 501, 5th Floor, Cuilin Building, 10 Kaifeng Road, Maling District, Meilin Street, Futian District, Shenzhen, China.

The Company is an investment holding company and the Company and its subsidiaries (collectively, referred to as the "**Group**") are engaged in device recycling business, provision of device subscription services and information technology ("**IT**") technical subscription services.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the conventions applicable for group reorganisation.

Prior to the incorporation of the Company and the completion of the group reorganisation, LX Shenzhen is the holding company of all the operating companies now comprising the Group. In preparation for the listing of the Company's shares on the Hong Kong Stock Exchange, the companies now comprising the Group underwent a group reorganisation (the "**Group Reorganisation**") as described below and the major steps of the Group Reorganisation 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 authorised share capital of the Company was Hong Kong Dollar ("**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 Shenzhen, as part of the Group Reorganisation.

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.

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 authorised to issue a maximum of 50,000 shares of one class with a par value of United States Dollar ("**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 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.

Reduction of Registered Capital of LX Shenzhen

Prior to the Group Reorganisation, several rounds of investments were made in LX Shenzhen by various pre-IPO 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 26.

On 9 February 2022, as part of the Group Reorganisation, LX Shenzhen and the then existing equity owners of LX Shenzhen entered into a capital reduction agreement, pursuant to which the respective registered capital contributed by the pre-IPO investors (collectively referred to as the "**Capital Reduction Parties**") in LX Shenzhen (the "**Capital Reduction**") was repurchased by LX Shenzhen at the consideration equivalent to respective considerations paid by these pre-IPO investors when they subscribed for the registered capital of LX Shenzhen at the relevant time.

As a result, the registered capital of LX Shenzhen 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 Shenzhen other than the pre-IPO investors of the Series of Investments as set out in note 26.

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 year ended 31 December 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 Shenzhen 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.

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Conversion of LX Shenzhen 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 Shenzhen 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 Shenzhen 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 Shenzhen 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 year ended 31 December 2022.

Acquisition of LX Shenzhen by LX HK

On 28 February 2022, LX HK and the then existing shareholders of LX Shenzhen, 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 Shenzhen at a total consideration of approximately RMB61,196,000, which was made reference to the registered capital of LX Shenzhen after the Capital Reduction. The registration of alternation was completed on 22 March 2022 and LX Shenzhen 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.

As the shares are proportionately issued to the shareholders of the Company upon completion of the Group Reorganisation, which involves interspersing the Company, LX BVI and LX HK between LX Shenzhen and its shareholders, the Group comprising of the Company, LX BVI, LX HK, LX Shenzhen and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity throughout the year, regardless of the actual date when they legally form part of the Group. Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years ended 31 December 2022 and 2021 have been prepared to include the results, changes in equity and cash flows of the companies now comprising the Group as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the years ended 31 December 2022 and 2021, or since their respective dates of incorporation, where there is a shorter period.

The consolidated statement of financial position of the Group as at 31 December 2021 have been prepared to present the carrying amounts of the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Group Reorganisation had been in existence at that date taking into account the respective dates of incorporation, where applicable.

3. APPLICATION OF AMENDMENTS TO IFRSs

The Group has consistently applied all the new and amendments to IFRSs, International Accounting Standards ("**IASs**"), and interpretations issued by the IASB which are effective for the accounting periods beginning on 1 January 2022.

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 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[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[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
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.

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 Income Taxes ("**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 consolidated financial statements, 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 utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

3. APPLICATION OF AMENDMENTS TO IFRSs (Continued)

Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (Continued)

As at 31 December 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 RMB11,330,000 and RMB12,919,000, 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 recognised 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have 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 consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Basis of preparation of consolidated financial statements (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised 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.

4.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate 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 are included in the consolidated statement 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.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Significant accounting policies (Continued)

Revenue from contracts with customers

The Group recognises 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 recognised 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 recognised 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognise 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 consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as 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 recognised as expense on a straight-line basis or another systematic basis over the lease term.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Leases (Continued)

The Group as lessee (Continued)

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. losses, and adjusted for any remeasurement of lease liabilities.

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 recognises 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Leases (Continued)

The Group as lessee (Continued)

Lease liabilities (Continued)

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 statement 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 9to 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Leases (Continued)

The Group as 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.

Rental income from operating leases is recognised 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 recognised 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 Revenue from Contracts with Customers ("**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.

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognise the assets and accounts for the transfer proceeds as other borrowings within the scope of IFRS 9.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 recognised 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. the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidated, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss on disposal.

Borrowing costs

All borrowing costs are recognised 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 recognised 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 recognised 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 recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 recognised 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 recognised 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 recognised in share-based payments reserve will be transferred to accumulated losses.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to share premium.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit (loss) before tax because of income or expense that are taxable or deductible in other years 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such deferred tax assets and liabilities are not recognised 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 recognised 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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.

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 realised, 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 recognises 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Taxation (Continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised 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 statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised 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 derecognised 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 recognised in profit or loss.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised 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 recognised 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Internally-generated intangible assets — research and development expenditure (Continued)

The amount initially recognised 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 recognised, development expenditure is recognised 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 amortisation 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Impairment on property, plant and equipment and right-of-use assets (Continued)

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 recognised 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 recognised 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 recognised immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

a). cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

b). cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised 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.

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 recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant 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 amortised 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

— 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.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised 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 recognised by applying the effective interest rate to the amortised 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 recognised 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 cash and cash equivalents) 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

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.

The Group always recognises 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 recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised 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

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

— 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;

(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 reorganisation.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

(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 recognised 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

(v) Measurement and recognition of ECL (Continued)

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 amortised cost of the financial asset.

The Group recognises 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 recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises 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 amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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 recognised at the proceeds received, net of direct issue costs.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial liabilities and equity (Continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised 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 Business Combinations 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

The financial liabilities at FVTPL represented Series of Investments in LX Shenzhen 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 recognised 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 recognised 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 recognised in profit or loss.

Fair values of the Group's financial liabilities at FVTPL are determined in the manner described in note 26.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises 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 derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Related parties (Continued)

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the entities comprising the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated useful lives of equipment for subscription

In determining the useful lives of equipment for subscription included in property, plant and equipment, the Group periodically reviews the changes in market conditions, physical wear and tear, and maintenance of the equipment. The estimation of the useful life of an equipment 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 the equipment are different from previous estimation. Useful lives are reviewed, at the year end, based on changes in circumstances. The carrying amount of the equipment for subscription included in property, plant and equipment of the Group as at 31 December 2022 is approximately RMB785,431,000 (2021: RMB725,914,000).

5. KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of inventories

The Group determines impairment for obsolescence of inventories with reference to aged inventory analysis and projections of expected future saleability of goods. Impairment of inventories will be made when the carrying amounts of inventories are higher than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

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 Operating Segments are as follows:

(1) Device recycling business

(2) Device subscription services

6. SEGMENT INFORMATION AND REVENUE (Continued)

Year ended 31 December 2022

	Device recycling business RMB'000	Device subscription services RMB'000	Total RMB'000
Device recycling income			
— Mobile devices	**798,316**	**—**	**798,316**
— Non-mobile devices	**391,364**	**—**	**391,364**
Device subscription services			
— Short-term device subscription *(note 6(i))*	**—**	**61,313**	**61,313**
— Long-term device subscription *(note 6(iv))*	**—**	**257,941**	**257,941**
IT technical subscription services	**—**	**155,115**	**155,115**
	1,189,680	**474,369**	**1,664,049**

Year ended 31 December 2021

	Device recycling business RMB'000	Device subscription services RMB'000	Total RMB'000
Device recycling income			
— Mobile devices	468,304	—	468,304
— Non-mobile devices	456,104	—	456,104
Device subscription services			
— Short-term device subscription *(note 6(i))*	—	48,043	48,043
— Long-term device subscription *(note 6(iv))*	—	217,559	217,559
IT technical subscription services	—	140,392	140,392
	924,408	405,994	1,330,402

6. SEGMENT INFORMATION AND REVENUE (Continued)

Geographical information

The Group operates within one geographical segment during the years ended 31 December 2022 and 2021 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 contributing over 10% of the total sales of the Group are as follows:

	2022 RMB'000	2021 RMB'000
Customer A	188,537	N/A*

Note: Revenue from customers A are derived from device recycling business. During the years ended 31 December 2022 and 2021, 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 year ended 31 December 2021.

Revenue

(i) Disaggregation of revenue from contracts with customers

	2022 RMB'000	2021 RMB'000
Type of goods or services		
Device recycling income	1,189,680	924,408
IT technical subscription services	155,115	140,392
Short-term device subscription	61,313	48,043
Total	1,406,108	1,112,843
Timing of revenue recognition		
At a point in time	1,189,680	924,408
Over time	216,428	188,435
	1,406,108	1,112,843

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

6. SEGMENT INFORMATION AND REVENUE (Continued)

Information about major customers (Continued)

Revenue (Continued)

(i) *Disaggregation of revenue from contracts with customers (Continued)*

	2022 RMB'000	2021 RMB'000
Device recycling income	1,189,680	924,408
Device subscription services	216,428	188,435
Revenue from contracts with customers	1,406,108	1,112,843
Lease income from device subscription services *(note 6(iv))*	257,941	217,559
Total revenue	1,664,049	1,330,402

(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, including mobile devices (tablet computers and mobile phones) and non-mobile devices, and revenue is recognised 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 recognised when the Group receives such deposits from customers before goods are transferred.

6. SEGMENT INFORMATION AND REVENUE (Continued)

Information about major customers (Continued)

Revenue (Continued)

(ii) Performance obligations for contracts with customers (Continued)

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 recognised 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 recognised 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 recognised 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.

6. SEGMENT INFORMATION AND REVENUE (Continued)

Information about major customers (Continued)

Revenue (Continued)

(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) and the expected timing of recognising revenue are as follows:

At 31 December 2022

	Device recycling income RMB'000	IT technical subscription services RMB'000	Short-term device subscription services RMB'000
Within one year	—	140,368	8,314
More than one year but not more than two years	—	57,012	—
More than two years	—	12,146	—
	—	209,526	8,314

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	—
	1,498	116,818	630

6. SEGMENT INFORMATION AND REVENUE (Continued)

Information about major customers (Continued)

Revenue (Continued)

(iv) The revenue from long-term device subscription of equipment to the customers with fixed subscription payments for year ended 31 December 2022 amounted to RMB257,941,000 (2021: RMB217,559,000) 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:

	2022 RMB'000	2021 RMB'000
Within one year	**226,099**	157,533
In the second year	**70,046**	59,713
In the third year	**33,239**	20,301
	329,384	237,547

7. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Interest income	**750**	669
Government subsidies *(note)*	**10,309**	10,672
Compensation income from customers	**7,547**	3,520
	18,606	14,861

Note: 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 recognised.

8. OTHER GAINS AND LOSSES

	2022 RMB'000	2021 RMB'000
Gain on disposal of property, plant and equipment	**1,555**	—
Foreign exchange losses	**(5,784)**	—
Fair value change of financial assets at FVTPL	**215**	—
	(4,014)	—

9. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest expenses on borrowings	**41,315**	34,763
Interest expenses on lease liabilities	**1,110**	1,538
	42,425	36,301

10. PROFIT/(LOSS) BEFORE TAX

The Group's profit before tax is stated after charging/(crediting):

	2022 RMB'000	2021 RMB'000
Directors' emoluments *(note 12)*	**16,420**	2,340
Other staff costs:		
Salaries, allowances and other benefits in kind	**125,451**	115,223
Retirement benefit scheme contributions	**8,695**	6,813
Equity-settled share-based payments expense	**57,374**	—
	191,520	122,036
Auditors' remuneration	**4,205**	519
Depreciation of property, plant and equipment and right-of-use assets	**236,700**	193,343
Gain on disposal of property, plant and equipment	**(1,555)**	—
Write-down/(reversal of write-down) of inventories	**57**	(1,012)
Cost of inventories recognised as an expense	**1,131,344**	892,608

11. INCOME TAX (CREDIT)/EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax — the PRC	**17**	174
Charge for the year	**(71)**	—
Over-provision in prior years	**(4,196)**	2,257
Deferred tax *(note 17)*	**(4,250)**	2,431

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 years ended 31 December 2022 and 2021.

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 Shenzhen and certain subsidiaries, based on the existing legislation, interpretations and practises in respect thereof.

LX Shenzhen, 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 Shenzhen is entitled to a preferential income tax rate of 15% for the years ended 31 December 2022 and 2021. The latest approval for LX Shenzhen enjoying this tax benefit was obtained in December 2020 for the financial years of 2021, 2022 and 2023.

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 to 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 such reduced taxable income and the taxable income which more than RMB3 million of these qualifying subsidiaries would 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 Shenzhen has claimed such Super Deduction in ascertaining its tax assessable profits for the years ended 31 December 2022 and 2021.

11. INCOME TAX (CREDIT)/EXPENSE (Continued)

The reconciliation between income tax (credit)/expense and profit/(loss) before tax is as follows:

	2022 RMB'000	2021 RMB'000
Profit/(loss) before tax	95,698	(446,271)
Tax at the applicable tax rate of 25% (2021: 25%)	23,925	(111,568)
Tax effect of expenses not deductible for tax purpose	24,304	109,741
Tax effect of income not taxable tax purpose	(49,427)	—
Tax effect of tax losses not recognised	5,291	9,135
Utilisation of tax losses previously not recognised	(582)	—
Tax effect of Super Deduction	(5,709)	(2,029)
Tax effect of preferential tax rate	(1,981)	(2,848)
Over-provision in prior years	(71)	—
Income tax (credit)/expense for the year	(4,250)	2,431

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the emoluments paid or payable to the directors of the Company (including emoluments for the services as directors of LX Shenzhen prior to becoming the directors of the Company) by the group entities are as follows:

		For the year ended 31 December 2022					
	Date of appointment/resign as director	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Performance related bonus RMB'000	Equity-settled share-based payments expense RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors							
Mr. Hu Zuoxiong	Appointed on 10 January 2022	–	565	100	8,220	43	8,928
Mr. Chen Xiuwei	Appointed on 10 January 2022	–	920	176	5,556	18	6,670
Mr. Cao Weijun	Appointed on 10 January 2022	–	457	94	–	11	562
		–	1,942	370	13,776	72	16,160
Non-executive director							
Mr. Li Jing	Appointed on 28 March 2022	–	–	–	–	–	–
		–	–	–	–	–	–
Independent non-executive directors							
Mr. Kam Chi Sing	Appointed on 27 September 2022	80	–	–	–	–	80
Ms. Xu Naling	Appointed on 27 September 2022	90	–	–	–	–	90
Ms. Zhao Jinlin	Appointed on 27 September 2022 and resigned on 11 April 2023	90	–	–	–	–	90
Mr. Yao Zhengwang	Appointed on 11 April 2023	–	–	–	–	–	–
		260	–	–	–	–	260
Total		260	1,942	370	13,776	72	16,420

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

		For the year ended 31 December 2021				
	Date of appointment as director	Fees	Salaries, allowances and benefits in-kind	Performance related bonus	Retirement benefit scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Hu Zuoxiong	Appointed on 10 January 2022	–	614	35	39	688
Mr. Chen Xiuwei	Appointed on 10 January 2022	–	976	40	16	1,032
Mr. Cao Weijun	Appointed on 10 January 2022	–	573	38	9	620
		–	2,163	113	64	2,340
Non-executive director						
Mr. Li Jing	Appointed on 28 March 2022	–	–	–	–	–
		–	–	–	–	–
Total		–	2,163	113	64	2,340

Notes:

Mr. Li Jing was a director of LX Shenzhen 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 years ended 31 December 2022 and 2021.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of entities now comprising the Group. The non-executive director's emoluments and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

During the years ended 31 December 2022 and 2021, 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 directors has waived or agreed to waive any emoluments during the years ended 31 December 2022 and 2021.

13. FIVE HIGHEST PAID EMOLUMENTS

The five highest paid employees of the Group for the year ended 31 December 2022 included two (2021: two) executive directors, details of whose remuneration are set out in note 12 above. The emoluments of the remaining three (2021: three) highest paid employees of the Group for the year ended 31 December 2022 are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and allowances	1,857	2,336
Retirement benefit scheme contributions	75	95
Equity-settled share-based payments expense	25,056	—
	26,988	2,431

The number of highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2022	2021
Nil — HK$1,000,000	—	3
HK$7,500,000 — HK$8,000,000	1	—
HK$8,000,001 — HK$8,500,000	1	—
HK$15,500,001 — HK$16,000,000	1	—
	3	3

During the years ended 31 December 2022 and 2021, 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.

14. DIVIDEND

No dividend was declared or paid by the Company since its incorporation in respect of the years ended 31 December 2022 and 2021, nor any dividend been proposed since the end of the reporting period.

15. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	2022 RMB'000	2021 RMB'000
Earnings/(loss) for the year attributable to owners of the Company for the purpose of basic earnings/(loss) per shares	**99,948**	(448,702)
Effect of dilutive potential loss in respect of financial liabilities at FVTPL	**(197,680)**	—
Loss for the year attributable to owners of the Company for the purposes of diluted loss per share	**(97,732)**	(448,702)

	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**139,034,560**	120,189,303
Effect of dilutive potential ordinary shares:		
— Financial liabilities at FVTPL	**119,012,046**	—
Weighted average number of ordinary shares for the purpose of diluted loss per share	**258,046,606**	120,189,303

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings/(loss) per share has been determined on the assumption that the Group Reorganisation as disclosed in note 2 and the Capitalisation Issue (as defined and detailed in note 27(vi)) had been effected since 1 January 2021, and without taking into account 47,880,601 shares 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 year ended 31 December 2021, the Series of Investments in LX Shenzhen (note 26) 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 year ended 31 December 2021 is the same as basic loss per share for the year.

The computation of diluted earnings per share for the year ended 31 December 2022 dose not assume the exercise of the Company's share options and share award since their assumed exercise would result in decrease in loss per share.

16. 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
COST						
At 1 January 2021	34,771	714,353	6,155	3,265	5,377	763,921
Additions	6,064	486,175	1,852	539	1,982	496,612
Disposals/written off	–	–	(129)	–	(523)	(652)
Transfer to inventories	–	(159,537)	–	–	–	(159,537)
Modification	(3,717)	–	–	–	–	(3,717)
At 31 December 2021 and 1 January 2022	37,118	1,040,991	7,878	3,804	6,836	1,096,627
Additions	1,332	346,412	247	184	82	348,257
Disposals/written off	–	(66,200)	(270)	(224)	(4,393)	(71,087)
Transfer to inventories	–	(78,827)	–	–	–	(78,827)
Modification	(630)	–	–	–	–	(630)
At 31 December 2022	37,820	1,242,376	7,855	3,764	2,525	1,294,340
DEPRECIATION						
At 1 January 2021	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)
At 31 December 2021 and 1 January 2022	18,375	315,077	2,896	2,401	3,970	342,719
Provided for the year	8,745	224,397	1,058	636	1,864	236,700
Eliminated on disposal/written off	–	(34,135)	(237)	(151)	(4,393)	(38,916)
Eliminated on transfer to inventories	–	(48,394)	–	–	–	(48,394)
Eliminated on modification	(630)	–	–	–	–	(630)
At 31 December 2022	26,490	456,945	3,717	2,886	1,441	491,479
CARRYING VALUE						
At 31 December 2022	11,330	785,431	4,138	878	1,084	802,861
At 31 December 2021	18,743	725,914	4,982	1,403	2,866	753,908

16. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

As at 31 December 2022, certain equipment for subscription with an aggregate carrying amount of approximately RMB65,818,000 (2021: RMB77,952,000) were under lease agreement. The ownership of equipments will be transferred to the Group by the end of lease terms. The equipments were used as security to the other borrowings.

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, which 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 2022 and 2021. None of the leases includes variable lease payments.

The Group as leasee

Right-of-use assets (included in the property, plant and equipment and right-of-use assets)

	2022 RMB'000	2021 RMB'000
Disclosures of lease-related items:		
At 31 December		
Right-of-use assets		
— Leased properties	11,330	18,743

16. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

The Group as leasee (Continued)

Right-of-use assets (included in the property, plant and equipment and right-of-use assets) (Continued)

The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:

	2022 RMB'000	2021 RMB'000
— Within 1 year	7,008	11,538
— Between 2 and 5 years	6,851	11,523
	13,859	23,061
Depreciation charge of right-of-use assets		
— Leased properties	8,745	8,732
Lease interests	1,110	1,538
Expenses related to short-term leases	—	25
Total cash outflow for leases	10,616	9,984
Additions to right-of-use assets	1,332	6,064

During the years ended 31 December 2022 and 2021, 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.

The Group regularly entered into short-term leases for staff quarters and office equipment during the year ended 31 December 2021. As at 31 December 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.

16. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

The Group as leasee (Continued)

Right-of-use assets (included in the property, plant and equipment and right-of-use assets) (Continued)

During the year ended 31 December 2022, the Group has entered into a new lease agreement for the use of offices for 3 years (2021: 2 years). On the lease commencement or lease renewal, the Group recognised right-of-use assets of RMB1,332,000 (2021: RMB6,064,000) and a corresponding adjustment of the same amount to lease liabilities during the year ended 31 December 2022. In addition, the Group terminated certain lease arrangement which constituted lease modifications. The reduction of the Group's lease liabilities of RMB70,000 (2021: RMB574,000) and a corresponding adjustment of the right-of-use assets of nil (2021: RMB497,000) were recognised and result in gain on modification of RMB70,000 (2021: RMB77,000) recognised in profit or loss during the year ended 31 December 2022.

Details of the lease maturity analysis of lease liabilities are set out in notes 25(b) and 32(b).

17. DEFERRED TAX

	2022 RMB'000	2021 RMB'000
Deferred tax assets	13,186	5,481
Deferred tax liabilities	3,509	—

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2022 and 2021.

	Unrealised profit RMB'000	ECL provision RMB'000	Write-down of inventories RMB'000	Tax losses RMB'000	Total RMB'000
Deferred tax assets					
At 1 January 2021	910	885	517	5,426	7,738
Deferred tax (charged)/credited to profit or loss during the year *(note 11)*	(191)	385	(253)	(2,198)	(2,257)
At 31 December 2021 and 1 January 2022	719	1,270	264	3,228	5,481
Deferred tax (charged)/credited to profit or loss during the year *(note 11)*	(264)	260	14	7,695	7,705
At 31 December 2022	455	1,530	278	10,923	13,186

17. DEFERRED TAX (Continued)

	Accelerated tax depreciation RMB'000	Total RMB'000
Deferred tax liabilities		
At 1 January 2022	—	—
Deferred tax charged to profit or loss during the year *(note 11)*	3,509	3,509
At 31 December 2022	3,509	3,509

Deferred tax assets have not been recognised in respect of the following items:

	2022 RMB'000	2021 RMB'000
Tax losses	**85,205**	68,653

At 31 December 2022, the Group has unused tax losses of approximately RMB157,633,000 (2021: RMB89,983,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB72,428,000 (2021: RMB21,330,000) of such losses and no deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses as at 31 December 2022 of RMB85,205,000 (2021: RMB68,653,000) will be carried forward and expired in next 5 years.

Deferred income tax liabilities of approximately RMB4,550,000 (2021: nil) have not been provided for the withholding tax that would be payable on the unremitted earnings of subsidiaries of approximately RMB45,503,000 (2021: nil) in the PRC. The unremitted earnings are used for reinvestment. The income tax liability is not recognised, because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Merchandise goods	**76,630**	74,307

19. TRADE AND LEASE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade and lease receivables		
— third parties	67,459	57,052
— related parties	4,750	2,033
	72,209	59,085
Less: allowance for expected credit losses	(7,330)	(5,645)
	64,879	53,440

As at 1 January 2021, trade and lease receivables amounted to RMB37,107,000.

The following is an ageing analysis of trade and lease receivables, net of allowance for expected credit losses, presented based on the revenue recognition dates at the end of each reporting period:

	2022 RMB'000	2021 RMB'000
Within 3 months	49,784	43,299
More than 3 months but within 6 months	7,738	7,326
More than 6 months but within 1 year	4,940	691
Over 1 year	2,417	2,124
	64,879	53,440

As at 31 December 2022, included in the Group's trade and lease receivables balance are debtors with aggregate carrying amount of RMB20,029,000 (2021: RMB21,688,000) which are past due. Out of the past due balances RMB9,258,000 (2021: RMB11,672,000) 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).

20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2022 RMB'000	2021 RMB'000
Prepayment for operating expenses	**19,176**	34,701
Rental deposits	**2,002**	2,068
Advances to suppliers	**7,490**	3,796
Value-added tax receivables	**82,863**	85,120
Other deposits paid	**3,989**	10,317
Deferred issue cost	**—**	2,327
Others	**1,760**	2,370
	117,280	140,699
Represented by:		
— Non-current	**4,676**	6,370
— Current	**112,604**	134,329
	117,280	140,699
— third parties	**101,639**	113,381
— related parties *(note)*	**15,641**	27,318
	117,280	140,699

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 reporting period for those transactions disclosed in note 36.

Details of impairment assessment of trade and lease receivables are set out in note 32(b).

21. FINANCIAL ASSETS AT FVTPL

	2022 RMB'000	2021 RMB'000
Investment in private funds		
— Managed by investment manager A *(i) & (ii)*	**203,529**	—
— Managed by investment manager B *(i)*	**46,879**	—
Investment in equity securities		
— listed in Hong Kong	**50,403**	—
	300,811	—

(i) The investments represented four portfolios managed by two different investment managers. Investment objectives were to invest in cash or cash equivalents, national debt and other money market instruments. Subsequently in March 2023, the Group has redeemed all these investments.

(ii) During the year, the Group acquired 227,567 shares in Future Vision Fund SPC. As at 31 December 2022, the fair value of the fund is approximately RMB203,529,000, which participial 13.0% of the Group's total assets. The investment scope of the fund are investment in cash, short term bills and short term notes, certificates of deposits and other instruments, etc. The Company considered the fund fit the needs of the Group as they involve principle guaranteed fixed income products which yield higher interest rate returns than savings deposit of banks at the relevant time and have more flexible redemption features than monthly fixed deposits offered by the banks in Hong Kong at the relevant time. During the year, interest income of approximately RMB292,000 was recognised.

Details of the valuation techniques and key inputs adopted for their fair value measurements are disclosed in note 33.

22. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**183,811**	148,209
Less: restricted deposits	**(27,537)**	(29,656)
Cash and cash equivalents	**156,274**	118,553

Bank balances as at 31 December 2022 carry interest at market rates which range from 0.25% to 1.68% per annum (2021: 0.3% to 1.5% per annum) and the restricted deposits carry fixed interest rate of 0.25% per annum (2021: 0.3% per annum).

Restricted deposits amounting to RMB26,536,000 (2021: RMB28,656,000) as at 31 December 2022 represented the secure deposits paid for borrowings granted to the Group and will be released upon repayment of borrowings. Restricted deposits amounting to RMB1,001,000 (2021: RMB1,000,000) as at 31 December 2022 represented the deposits paid to a bank for letter of guarantee and will be released on or after 31 December 2023.

Of the total restricted deposits, RMB12,818,000 (2021: RMB20,233,000) which are not expected to be released within 12 months from the end of reporting period are presented under non-current assets as at 31 December 2022.

Details of impairment assessment of cash and cash equivalents and restricted deposits are set out in note 32(b).

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Trade payables	125,123	68,293
Other payables and accruals		
Accrued staff costs and retirement benefit scheme contributions	23,594	24,382
Advance from leasing customers under device subscription service	17,087	18,002
Other tax payables	2,154	5,463
Secured and other deposits received	4,946	3,951
Accrued expenses	5,714	2,041
Accrued listing and issue costs	6,249	3,914
Others	896	643
	60,640	58,396
	185,763	126,689
Represented by:		
— third parties	183,318	109,408
— related parties *(note)*	2,445	17,281
	185,763	126,689

Note: The Group has payable to its related parties at the end of reporting period for purchase of IT equipment, certain operating expenses, including marketing and promotion services as disclosed in note 36.

The credit period on trade payables ranges from 0 to 90 days. The ageing analysis of the Group's trade payables based on the invoice dates at the end of reporting period are as follows:

	2022 RMB'000	2021 RMB'000
Within 6 months	88,185	52,548
6–12 months	22,104	1,167
Over 1 year	14,834	14,578
	125,123	68,293

24. CONTRACT LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000	As at 1 January 2021 RMB'000
Deposits received from customers in relation to device recycling income	**425**	1,498	4,228

The directors of the Company considered that the entire balance of contract liabilities as at 31 December 2022 and 2021 would be realised 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 recognised relates to carried-forward contract liabilities at the beginning of the year.

	2022 RMB'000	2021 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**1,400**	4,228

Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:

	2022 RMB'000	2021 RMB'000
— 2022	**—**	1,400
— 2023	**425**	98
	425	1,498

Significant changes in contract liabilities during the years

	2022 RMB'000	2021 RMB'000
Increase due to operations in the year	**5,260**	29,904
Transfer of contract liabilities to revenue	**(6,333)**	(32,634)

25. BORROWINGS

	2022 RMB'000	2021 RMB'000
Borrowings *(note 25(a))*	550,914	541,584
Lease liabilities *(note 25(b))*	12,919	21,163
	563,833	562,747
Represented by:		
— Current	412,782	400,878
— Non-current	151,051	161,869
	563,833	562,747

(a) Borrowings

	2022			2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Bank loans — Secured *(note i)*	4.00%–5.25%	2024–2025	39,695	5.20%–6.20%	2022–2024	25,961
Bank loans — Unsecured *(note ii)*	4.05%–8.00%	2023–2024	289,653	5.65%–8.00%	2022–2023	185,645
Other borrowings — Secured *(note i)*	8.22%–9.81%	2023–2024	75,068	7.8%–12.83%	2022–2023	114,421
Other borrowings — Unsecured *(note ii)*	6.28%–11.83%	2023–2024	146,498	7.77%–12.16%	2022–2024	215,557
			550,914			541,584

	2022 RMB'000	2021 RMB'000
Represented by:		
— third parties	550,914	514,773
— related third parties *(note iii)*	—	26,811
	550,914	541,584

25. BORROWINGS (Continued)

(a) Borrowings (Continued)

	Bank borrowings		Other borrowings		Total	
	2022	2021	**2022**	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Repayable:						
Within one year	**231,141**	171,798	**175,217**	218,626	**406,358**	390,424
Within a period of more than one year but not exceeding two years	**92,207**	37,583	**46,349**	104,507	**138,556**	142,090
Within a period of more than two years but not exceeding five years	**6,000**	2,225	**–**	6,845	**6,000**	9,070
	329,348	211,606	**221,566**	329,978	**550,914**	541,584

Notes:

i. The secured borrowings as at 31 December 2022 and 2021 are secured by restricted deposits and/or equipment for subscription owned by the Group.

ii. The unsecured borrowings as at 31 December 2022 are guaranteed by an independent third party. (As at 31 December 2021, the unsecured borrowings are guaranteed by a director, Mr. Hu Zuoxiong, his wife, Ms. Zhao Lin, and an independent third party.)

iii. The borrowings from related parties as at 31 December 2021 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 during the year ended 31 December 2021. The borrowings with related parties have been settled during the year ended 31 December 2022.

25. BORROWINGS (Continued)

(b) Lease liabilities

	Lease payments 2022 RMB'000	Present value of lease payments 2022 RMB'000	Lease payments 2021 RMB'000	Present value of lease payments 2021 RMB'000
Within one year	**7,008**	**6,424**	11,538	10,454
Within a period of more than one year but not exceeding two years	**4,406**	**4,126**	5,519	5,032
Within a period of more than two years but not exceeding five years	**2,445**	**2,369**	6,004	5,677
	13,859		23,061	
Less: Future finance charges	**(940)**		(1,898)	
Present value of lease obligations	**12,919**	**12,919**	21,163	21,163
Less: Amount due for settlement within 12 months (shown under current liabilities)		**(6,424)**		(10,454)
Amount due for settlement after 12 months		**6,495**		10,709

The weighted average incremental borrowing rate was 6.4%(2021: 6.4%).

26. FINANCIAL LIABILITIES AT FVTPL

LX Shenzhen has completed several Series of Investments in prior years and 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 Shenzhen subscribed RMB	Total considerations RMB'000
Series A	2018	3	11 May 2018	12,721,089	68,000
Series A (through exercising warrant)	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)*	2021	1	28 June 2021	221,636	5,000
Total				51,607,146	461,500

Note: 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 Shenzhen from Mr. Hu Zuoxiong and his controlled entity, Shenzhen LX Investment Partnership (Limited Partnership), both were equity owners of LX Shenzhen, at an aggregate consideration of RMB11,634,000 ("**Series D-3 Capital Transfer**") and made a capital contribution of RMB5,000,000 to LX Shenzhen 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 Shenzhen agreed to grant the redemption right and liquidation preference right as set out below on those equity interests in LX Shenzhen 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 Shenzhen are recognised in other reserves as deemed distribution during the year ended 31 December 2021.

26. FINANCIAL LIABILITIES AT FVTPL (Continued)

Note: (Continued)

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 Reorganisation. 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(有限合夥)) ("**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 (有限合夥)) ("**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, 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. These 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 issued Preferred Shares of the Company upon completion of Group Reorganisation as disclosed in note 2 are detailed below:

Series of Investments	Year of completion of the subscription	Number of investor(s)	Total number of Preferred shares issued	Subscription price per Preferred Share RMB	Total considerations 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 *(note)*	2022	1	1,000,000	16.63	16,634
Total			49,200,812		473,134

26. FINANCIAL LIABILITIES AT FVTPL (Continued)

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 Shenzhen (before completion of Group Reorganisation) 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 Shenzhen (before completion of Group Reorganisation) fails to consummate an qualified initial public offering (the "**Qualified IPO**") on or prior to 31 December 2023; (ii) reasonable judgement of the investors that the Company or LX Shenzhen fails to consummate an Qualified IPO 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 Shenzhen 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 Shenzhen and its subsidiaries constitute a material obstacle to its qualified listing and cannot be corrected in accordance with the relevant provisions of the laws of China or the place of listing, or the Company or LX Shenzhen and other investors of the Series of Investments refuse to regulate it; (vi) the Company or LX Shenzhen 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 Shenzhen enters into liquidation or insolvency proceedings; (xi) the Company or LX Shenzhen, core management seriously violated any terms as set in the subscription agreement; or (xii) other redemption condition as set out in the agreement.

After any of the redemption events occur, the shareholders of the Preferred Shares/investors of the Series of Investments in the Company/LX Shenzhen shall have the rights at any time to require and demand the Company or LX Shenzhen to redeem all or any portion of their Preferred Shares or Series of Investments.

26. FINANCIAL LIABILITIES AT FVTPL (Continued)

Redemption rights (Continued)

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 Shenzhen 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 or 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 Shenzhen before the redemption date.

Liquidation Preferences

In the event of any liquidation, dissolution or winding up of the Company or LX Shenzhen, either voluntary or involuntary, the liquidation expenses and debts of the Company or LX Shenzhen shall be paid out of the assets in accordance with the priority prescribed by applicable laws and regulations. After the Company or LX Shenzhen pays liquidation fees, employees' salaries, social insurance, legal compensation, taxes owed and debts of the Company or LX Shenzhen, the remaining property of the Company or LX Shenzhen 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.

26. FINANCIAL LIABILITIES AT FVTPL (Continued)

Liquidation Preferences (Continued)

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 Shenzhen 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 Shenzhen.

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 IPO or the consummation of a Qualified IPO, respectively. However, in the event the earlier of (i) the application for a Qualified IPO is rejected or withdrawn; (ii) the Qualified IPO is not consummated within twelve months after the submission of A1 IPO application; or (iii) the Qualified IPO 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 IPO, 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 IPO. 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 IPO and the Capitalisation Issue as defined in note 27(vi).

Presentation and Classification

The directors of the Company considered that Series of Investments in LX Shenzhen 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 "fair value changes 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 recognised as fair value upon initial recognition. Prior to the exercise of the Warrants, the changes in fair value are recognised in the profit or loss.

26. FINANCIAL LIABILITIES AT FVTPL (Continued)

Presentation and Classification (Continued)

The movements of the financial liabilities at FVTPL are set out as below:

	2022 RMB'000	2021 RMB'000
At the beginning of the year	1,117,083	606,533
Consideration from the Series B, C, D-1 and D-2 Investments and Series D-3 Capital Injection	–	65,000
Consideration from the Series D-3 Capital Transfer	–	11,634
Changes in fair value	(197,680)	433,916
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)	–
Automatic conversion to ordinary shares upon completion of IPO	(919,403)	–
At the end of the year	–	1,117,083

The management of the Group applied discounted cash flow method to determine the underlying equity value of the Company or LX Shenzhen (before completion of Group Reorganisation) and adopted equity allocation model based on the Black-Scholes option pricing model to determine the fair value of the financial liabilities at FVTPL as at 31 December 2021.

In addition to the underlying equity value of the Company or LX Shenzhen (before completion of Group Reorganisation) determined by 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 and the fair value loss of financial liabilities at FVTPL of approximately RMB433,916,000 was recognised during the year ended 31 December 2021.

	2021
Time to liquidation	2 years
Discount rate	15.0%
Risk-free interest rate	2.4%
Expected volatility	61.0%
Possibilities under liquidation scenario	10.0%
Possibilities under redemption scenario	25.0%
Possibilities under IPO scenario	65.0%

26. FINANCIAL LIABILITIES AT FVTPL (Continued)

Presentation and Classification (Continued)

Upon completion of the IPO on 24 November 2022, the Preferred Shares were automatically converted into 49,200,812 authorised and issued ordinary shares of the Company. At the date of conversion, the Preferred Shares were measured at fair value amounting to RMB919,403,000 and fair value gain of financial liabilities at FVTPL amounting to RMB197,680,000 was recognised immediately with reference to the offer price of IPO of HK$7.60 per ordinary share of the Company on the same date.

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 statement of profit or loss and other comprehensive income.

Reconciliation of financial liabilities at FVTPL under Level 3 fair value measurements

	Series of Investments RMB'000	Preferred Shares RMB'000	Warrants RMB'000	Total RMB'000
At 1 January 2021	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 and 1 January 2022	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)	(127,729)	1,456	(197,680)
Automatic conversion to ordinary shares	—	(919,403)	—	(919,403)
At 31 December 2022	—	—	—	—

27. SHARE CAPITAL

The share capital as at 31 December 2022 represented the issued share capital of the Company and the paid-up capital as at 1 January 2021 and 31 December 2021 represented the paid-up registered capital of LX Shenzhen, other than those from the Series of Investments as detailed in note 26. Details of the share capital of the Company are as follows:

	Number of shares	Share capital HK$	Share capital RMB'000
Ordinary shares of HK$0.01 each			
Authorised			
At the date of incorporation *(note (i))*	760,000,000	7,600,000	6,208
Designated as Series A Preferred Shares on 22 March 2022 *(note (iii))*	(15,091,329)	(150,913)	(123)
Designated as Series B Preferred Shares on 22 March 2022 *(note (iii))*	(14,593,840)	(145,938)	(119)
Designated as Series C Preferred Shares on 22 March 2022 *(note (iii))*	(2,084,011)	(20,840)	(17)
Designated as Series D-1 Preferred Shares on 22 March 2022 *(note (iii))*	(12,824,688)	(128,247)	(105)
Designated as Series D-2 Preferred Shares on 22 March 2022 *(note (iii))*	(3,606,944)	(36,070)	(29)
Designated as Series D-3 Preferred Shares on 22 March 2022 *(note (iii))*	(1,000,000)	(10,000)	(8)
Increase on 27 September 2022 *(note (vii))*	240,000,000	2,400,000	2,162
Automatic conversion of Preferred Shares upon completion of IPO *(note 26)*	49,200,812	492,008	401
At 31 December 2022	1,000,000,000	10,000,000	8,370
Issued and fully paid			
Allotment at the date of incorporation *(note (i))*	1	—	—
Allotment on 19 January 2022 *(note (ii))*	44,777,900	447,779	366
Allotment on 25 March 2022 *(note (iv))*	17,733,556	177,336	144
Redesignated as Preferred shares on 28 March 2022 *(note (v))*	(601,158)	(6,012)	(5)
Capitalisation Issue *(note (vi))*	188,888,889	1,888,889	1,720
Automatic conversion of Preferred Shares upon completion of IPO *(note 26)*	49,200,812	492,008	448
Issuance of ordinary shares pursuant to IPO *(note (vi))*	53,259,000	532,590	485
At 31 December 2022	353,259,000	3,532,590	3,158

27. SHARE CAPITAL (Continued)

Notes:

(i) Upon incorporation on 10 January 2022, the authorised 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 Shenzhen, as part of the Group Reorganisation.

(iii) Pursuant to the written resolutions passed on 22 March 2022, the authorised 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.

(vi) The directors of the Company were authorised to capitalise HK$1,888,889 (equivalents to RMB1,720,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 188,888,889 shares for allotment ("**Capitalisation Issue**") and issue to holders of shares whose names appear on the register of members of the Company on 27 September 2022 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 on 24 November 2022, and on the same date, in connection with the Company 's IPO, 53,259,000 ordinary shares of HK$0.01 each were issued at HK$7.60 per ordinary share of the Company for the total gross cash consideration of HK$404,768,000 (equivalent to RMB368,606,000)

(vii) Pursuant to the resolutions of the Company 's shareholders passed on 27 September 2022, the authorised share capital of the Company was increased from HK$7,600,000 (equivalents to RMB6,208,000) to HK$10,000,000 (equivalents to RMB8,370,000) divided into 1,000,000,000 shares of HK$0.01 each by the creation of an additional 240,000,000 shares.

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 during both years.

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 share capital/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.

28. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

Nature and purpose of reserves of the Group

Statutory surplus reserve

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.

28. RESERVES (Continued)

(b) Company

	Share premium RMB'000	Other reserves RMB'000 *(note)*	Share-based payments reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At the date of incorporation	—	—	—	—	—
Total comprehensive expenses for the period	—	—	—	(500,633)	(500,633)
Allotment on 19 January 2022 *(note 27(ii))*	—	(366)	—	—	(366)
Allotment on 25 March 2022 *(note 27(iv))*	—	(144)	—	—	(144)
Redesignated as Preferred shares on 28 March 2022 *(note 27 (v))*	—	5	—	—	5
Recognition of equity-settled share-based payments expense	—	—	71,150	—	71,150
Capitalisation issue *(note 27(vi))*	(1,720)	—	—	—	(1,720)
Automatic conversion of preferred shares to ordinary shares upon completion of IPO *(note 26)*	918,955	—	—	—	918,955
Issue of shares pursuant to IPO *(note 27(vi))*	368,121	—	—	—	368,121
Transaction costs directly attributable to issue of new shares in the IPO	(21,571)	—	—	—	(21,571)
At 31 December 2022	1,263,785	(505)	71,150	(500,633)	833,797

Note: As at 31 December 2022, other reserves mainly represent the ordinary shares allotted and issued to i) certain equity owners of LX Shenzhen as part of the Group Reorganisation mentioned in note 2 and ii) employee incentive platforms of the Group.

29. 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 RMB8,767,000 (2021: RMB6,877,000) for the year ended 31 December 2022. No forfeited contributions have been used to reduce the level of contributions during each of the reporting period.

30. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2022 **RMB'000**	2021 RMB'000
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in these consolidated financial statements	**9,250**	8,928

31. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiaries	Place and the date of incorporation/ establishment and operation	Issued share capital/ paid-up capital/ registered capital	Equity interest attributable to the Group at 31 December		Principal activities
			2022	2021	
Directly held:					
LX BVI	British Virgin Islands 10 January 2022	US$1	100%	N/A	Investment holding
Indirectly held:					
LX HK	Hong Kong 26 January 2022	HK$10,000	100%	N/A	Investment holding
LX Shenzhen	The PRC *(note i)* 3 May 2013	RMB512,031,039 (2021: RMB54,155,565)	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 *(note ii)* 1 November 2004	RMB2,000,000 (2021: RMB2,000,000)	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)	The PRC *(note ii)* 17 April 2017	RMB10,000,000 (2021: RMB10,000,000)	100%	100%	Device recycling business
Chengdu LX Rental Services Co., Ltd. (成都凌雄租賃服務有限公司)	The PRC *(note ii)* 28 March 2017	RMB1,000,000 (2021: RMB1,000,000)	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 *(note ii)* 25 May 2017	RMB1,000,000 (2021: RMB1,000,000)	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 *(note ii)* 25 May 2017	RMB1,000,000 (2021: RMB1,000,000)	100%	100%	IT technical subscription services
Xiamen LX Technology Co., Ltd. (廈門凌雄科技有限公司)	The PRC *(note ii)* 20 September 2016	RMB2,000,000 (2021: RMB2,000,000)	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 *(note ii)* 3 April 2019	RMB1,000,000 (2021: RMB1,000,000)	100%	100%	Device subscription services and IT technical subscription services
Shenzhen Yueqi E-Commerce Co., Ltd. (深圳市悦企電子商務有限公司)	The PRC *(note ii)* 24 August 2017	RMB2,000,000 (2021: RMB2,000,000)	100%	100%	Device recycling business
Guangzhou Tianchuang E-Commerce Co., Ltd. (廣州天創電子商務有限公司) ("**Guangzhou Tianchuang**") *(note iii)*	The PRC *(note ii)* 12 April 2018	RMB1,000,000 (2021: RMB1,000,000)	–	100%	Device recycling business
Jingmen Lingrui Recycling Resources Co., Ltd. (荊門凌瑞再生資源有限公司)	The PRC *(note ii)* 9 November 2017	RMB2,000,000 (2021: RMB2,000,000)	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 *(note ii)* 28 March 2018	RMB1,000,000 (2021: RMB1,000,000)	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 *(note ii)* 15 June 2016	RMB10,000,000 (2021: RMB10,000,000)	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 iii)*	The PRC *(note ii)* 24 January 2018	RMB10,000,000 (2021: RMB10,000,000)	–	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 *(note ii)* 26 March 2021	RMB1,000,000 (2021: RMB1,000,000)	100%	100%	Device recycling business

31. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY (Continued)

Note:

(i) The subsidiary is registered as wholly-foreign-owned enterprises under the laws of the PRC.

(ii) These subsidiaries are registered as wholly-domestic-owned enterprises under the laws of the PRC.

(iii) 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 year ended 31 December 2022, such financial impact is insignificant to the Group.

Other than the Series of Investment in LX Shenzhen, none of the subsidiaries had issued any debt securities at the end of the reporting period.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets:		
At amortised cost	256,441	216,404
At FVTPL	300,811	—
Financial liabilities:		
At amortised cost	693,842	620,426
At FVTPL	—	1,117,083

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and lease receivables, other receivables and deposits, financial assets at FVTPL, restricted deposits, cash and cash equivalents, 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.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

Currency risk

Certain cash and cash equivalents and borrowings are denominated in foreign currencies of respective group entities which expose 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 the reporting period are mainly as follows:

		Assets		Liabilities	
		2022	2021	**2022**	2021
	Currency	**RMB'000**	RMB'000	**RMB'000**	RMB'000
United States dollar	USD	**12,110**	—	**2,278**	—
Hong Kong dollar	HKD	**346,548**	—	**3,669**	—

The Group currently does not have a foreign exchange hedging policy to eliminate the currency exposures. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in USD and HKD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 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 an increase in post-tax profit or a decrease in post-tax loss for the year where RMB weakens 5% against the relevant foreign currencies. For a 5% strengthening of RMB against the relevant foreign currencies, there would be an opposite impact on the post-tax profit or loss for the year.

	USD impact		HKD impact	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Impact on post-tax profit or loss	**411**	—	**17,144**	—

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis (Continued)

The directors of the Company considered the sensitivity analysis is unrepresentative of the foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year ended 31 December 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 cash and cash equivalents. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on cash and cash equivalents. 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 cash and cash equivalents is insignificant. No sensitivity analysis is presented accordingly.

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL as at 31 December 2022 and Preferred Shares and the Series of Investments, which were classified as financial liabilities at FVTPL as at 31 December 2021. For equity securities measured at FVTPL quoted in the Hong Kong Stock Exchange, the management of the Group manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date. For investments in equity securities measured at FVTPL as at 31 December 2022, if the prices of the respective equity securities had been changed based on 5% higher/lower, the profit of the Group for the year ended 31 December 2022 would increase/decrease by approximately RMB15,041,000. For financial liabilities at FVTPL as at 31 December 2021, if the equity value of LX Shenzhen had been changed based on the 5% higher/lower, the loss of the Group for the year ended 31 December 2021 would increase by approximately RMB52,359,000 and decrease by approximately RMB52,308,000.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

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 cash and cash equivalents. 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 2022 and 2021.

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 summarised 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 that are 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 ageing of outstanding balances. Impairment of approximately RMB1,716,000 (2021: RMB1,970,000) are recognised during the year ended 31 December 2022. Details of the quantitative disclosures are set out below in this note.

Restricted deposits and cash and cash equivalents

Credit risk on restricted deposits and bank balances included in cash and cash equivalents is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL restricted deposits and cash and cash equivalents 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 and bank balances is considered to be insignificant and therefore no loss allowance was recognised.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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 supportable including 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 recognised.

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 — not credit-impaired	Lifetime ECL — not 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

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Other receivables and deposits (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	**At 31 December 2022 Gross carrying amount RMB'000**	2021 Gross carrying amount RMB'000
Financial assets at amortised cost						
Trade and lease receivables	*19*	N/A	Low risk *(note)*	Lifetime ECL-not credit impaired	**45,284**	31,920
			Watch list *(note)*	Lifetime ECL-not credit impaired	**21,246**	20,409
			Doubtful *(note)*	Lifetime ECL-not credit impaired	**5,679**	6,756
					72,209	59,085
Other receivables and deposits	*20*	N/A	Low risk	12m ECL	**7,751**	14,755
Restricted deposits	*22*	AA	N/A	12m ECL	**27,537**	29,656
Bank balances	*22*	AA+	N/A	12m ECL	**156,274**	118,553
					263,771	222,049

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 ageing of the receivables. There are no credit-impaired debtors that are assessed individually as at 31 December 2022 and 2021.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Provision matrix — debtors' ageing

As part of the Group's credit risk management, the Group uses debtors' ageing 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).

Gross carrying amount

	At 31 December			
	2022		2021	
	Average loss rate	Trade and lease receivables RMB'000	Average loss rate	Trade and lease receivables RMB'000
Current (not past due)	1.00%	45,284	0.50%	31,920
1–30 days past due	4.80%	4,470	1.40%	1,654
31–60 days past due	6.00%	4,808	4.70%	5,597
61–90 days past due	5.70%	2,115	5.20%	3,219
91–365 days past due	24.40%	9,853	14.00%	9,939
More than 365 days past due	68.20%	5,679	53.70%	6,756
		72,209		59,085

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 recognised for trade and lease receivables under the simplified approach.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Gross carrying amount (Continued)

	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
At 1 January 2021	3,675	—	3,675
Changes due to financial instruments recognised as at 1 January 2021:			
— Impairment losses reversed, net of allowance	(47)	—	(47)
New financial assets originated:			
— Impairment losses recognised	2,017	—	2,017
At 31 December 2021	5,645	—	5,645
Changes due to financial instruments recognised as at 1 January 2022:			
— Transfer to credit-impaired	(31)	31	—
— Impairment losses/(reversed) recognised, net of allowance	(1,741)	—	(1,741)
— Written-offs	—	(31)	(31)
New financial assets originated:			
— Impairment losses recognised	3,457	—	3,457
At 31 December 2022	**7,330**	**—**	**7,330**

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. There is approximately RMB31,000 of the trade and lease receivables that have been written off (2021: nil), which is subject to enforcement activities.

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 utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2022, the Group has available utilised bank loan facilities of approximately RMB164,043,000 (2021: RMB172,108,000).

The following table details the Group'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 can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or less than 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 2022 HK$'000
At 31 December 2022						
Trade payables, other payables and accruals	–	142,928	–	–	142,928	142,928
Borrowings	7.1%	432,485	142,954	6,072	581,511	550,914
Lease liabilities	6.4%	7,008	4,406	2,445	13,859	12,919
		582,421	147,360	8,517	738,298	706,761

	Weighted average effective interest rate %	On demand or less than 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 2022 HK$'000
At 31 December 2021						
Trade payables, other payables and accruals	–	78,842	–	–	78,842	78,842
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
		521,423	154,193	728,033	1,403,649	1,758,672

33. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2022 and 2021:

At 31 December 2022

	Fair value measurement using:			Total
	Level 1	Level 2	Level 3	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Description				
Recurring fair value measurements:				
Financial assets at FVTPL	50,403	250,408	—	300,811
	50,403	250,408	—	300,811

At 31 December 2021

	Fair value measurement using:			Total
	Level 1	Level 2	Level 3	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Description				
Recurring fair value measurements:				
Financial assets at FVTPL	—	—	1,117,083	1,117,083
	—	—	1,117,083	1,117,083

33. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(b) Reconciliation of assets measured at fair value based on level 3:

	Series of Investments 2022 RMB'000	Preferred Shares 2022 RMB'000	Warrants 2022 RMB'000	Total 2022 RMB'000
Description				
At 1 January 2022	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)	(127,729)	1,456	(197,680)
Automatic conversion to ordinary shares	—	(919,403)	—	(919,403)
At 31 December 2022	—	—	—	—
# Include (gain)/loss for assets held at end of reporting period	—	—	—	—

	Series of Investments 2021 RMB'000	Total 2021 RMB'000
Description		
At 1 January 2021	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
Change in fair value	433,916	433,916
At 31 December 2021	1,117,083	1,117,083
# Include loss for assets held at end of reporting period	433,916	433,916

33. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The Group's financial assets at FVTPL and 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 of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model and to understand the cause of fluctuations in the fair value of the assets and liabilities.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable input used in level 3 fair value measurements is mainly the expected volatility value.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2021 RMB'000
Financial liabilities at FVTPL	Discounted cash flow and Black-Scholes option pricing model	Expected volatility value	Increase	1,117,083

There is no transfer between different levels of the fair value hierarchy during the year.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in 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 statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Lease liabilities RMB'000	Financial liabilities at FVTPL RMB'000	Accrued issue costs RMB'000	Payables for capital reduction of LX Shenzhen RMB'000 *(note 2)*	Total liabilities from financing activities RMB'000
At 1 January 2021	303,564	24,094	606,533	–	–	934,191
Changes in cash flows	156,711	(9,959)	65,000	(1,383)	–	210,369
Non-cash changes						
– new leases or lease modification	–	5,490	–	–	–	5,490
– purchase of plant and equipment *(note i)*	46,546	–	–	–	–	46,546
– fair value adjustments	–	–	433,916	–	–	433,916
– effect of Series D-3 Capital Transfer	–	–	11,634	–	–	11,634
– deferred issue cost	–	–	–	2,327	–	2,327
– finance costs	34,763	1,538	–	–	–	36,301
At 31 December 2021 and 1 January 2022	541,584	21,163	1,117,083	944	–	1,680,774
Changes in cash flows	(51,242)	(10,616)	473,134	(19,287)	(473,134)	(81,145)
Non-cash changes						
– new leases or lease modification	–	1,262	–	–	–	1,262
– purchase of plant and equipment *(note i)*	19,257	–	–	–	–	19,257
– fair value adjustments	–	–	(197,680)	–	–	(197,680)
– deferred issue cost	–	–	–	19,244	–	19,244
– derecognition of the Series of Investments	–	–	(1,045,676)	–	473,134	(572,542)
– issuance of Preferred Shares *(note ii)*	–	–	573,998	–	–	573,998
– issuance of Warrants	–	–	653,699	–	–	653,699
– issuance of Warrants for Preferred Shares	–	–	(655,155)	–	–	(655,155)
– finance costs	41,315	1,110	–	–	–	42,425
– automatic conversion of Preferred Shares upon IPO	–	–	(919,403)	–	–	(919,403)
At 31 December 2022	**550,914**	**12,919**	**–**	**901**	**–**	**564,734**

Notes:

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 year 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.

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.

35. CONTINGENT LIABILITIES

At 31 December 2022, the Group did not have any significant contingent liabilities (2021: Nil).

36. RELATED PARTY TRANSACTIONS

Other than those transactions and balances disclosed in notes 19, 20, 23 and 25 to the consolidated financial statements, the Group has following transactions with related parties:

Relationship	Nature of transactions	Year ended 31 December 2022 RMB'000	2021 RMB'000
Entities which a director of the Company or ex-director of LX Shenzhen has significant influence	Revenue from related parties		
	— Device subscription services	**5,162**	4,081
	— IT technical subscription services	**217**	113
	Purchase of IT equipment from related parties	**16,877**	41,513
	Services received from related parties		
	— Marketing and promotion services	**7,696**	9,645
	— Maintenance services	**9,292**	14,354
	— Logistics services	**132**	330
	Interest expenses on other borrowings	**1,285**	1,803

Compensation of key management personnel

The remuneration of directors of the Company, chief executive officer and other members of key management of the Group was as follows:

	Year ended 31 December 2022 RMB'000	2021 RMB'000
Short-term employee benefits	**3,547**	3,654
Post-employment benefits	**109**	100
Equity-settled share-based payments expenses	**21,110**	—
	24,766	3,754

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	Note	2022 RMB'000
Non-current assets		
Investments in a subsidiary		529,073
Current assets		
Financial assets at FVTPL		300,811
Cash and cash equivalents		54,943
		355,754
Current liabilities		
Other payables and accruals		9,214
Amounts due to subsidiaries		38,658
		47,872
Net current assets		307,882
Total assets less current liabilities		836,955
NET ASSETS		836,955
Capital and reserves		
Share capital	*27*	3,158
Reserves	*28(b)*	833,797
TOTAL EQUITY		836,955

38. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

LX Brothers Employee Inventive 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, incentivising, 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 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) Capitalisation Issue and 2) the completion of the Hong Kong public offering and the international offering ("**Global Offering**"), as at the date of adoption of LX Brothers Employee Incentive Plan. As at 31 December 2022, the total number of shares available for issue under the LX Brothers Employee Incentive Plan was 17,880,602 shares and representing approximately 5.06% of the issued share capital of the Company.

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 and was adjusted to 17,880,602 shares upon Capitalisation Issue under LX Brothers Employee Incentive Plan.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme of the Company (Continued)

LX Brothers Employee Inventive Plan (Continued)

The estimated fair value of the options granted was HK$161,103,000 (equivalent to RMB130,840,000). During the year ended 31 December 2022, the Group recognised the share-based payments expense of RMB58,577,000 (2021: nil) 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 year ended 31 December 2022 under LX Brothers Employee Incentive Plan since approval of LX Brothers Employee Incentive Plan:

(a) Details of the specific categories of options are as follows:

	Number of share options						
	At 23 March 2022	Granted during the period	Transfer/ (forfeited) during the period	Capitalisation Issue during the period	Outstanding as at 31 December 2022	Expiry date	Exercise price HK$ per share
Director *(note i)*	–	1,059,452	3,127	1,806,389	2,868,968	31 March 2032	0.01
Director *(note ii)*	–	500,279	–	850,475	1,350,754	31 March 2032	0.01
Senior management *(note ii)*	–	100,000	–	170,000	270,000	31 March 2032	0.01
Senior management *(note iii)*	–	480,000	–	816,000	1,296,000	31 March 2032	0.01
Employees *(note i)*	–	3,610,352	(3,127)	6,132,278	9,739,503	31 March 2032	0.01
Employees *(note ii)*	–	872,362	–	1,483,015	2,355,377	31 March 2032	0.01
	–	6,622,445	–	11,258,157	17,880,602		

Notes:

(i) Grantees could vest 25% of his or her granted options on each of the 1 April from 2023 to 2026 upon satisfaction of annual comprehensive assessment and remain as staff in the Group.

(ii) Grantees could vest 50% of his or her granted options on each of the 1 April from 2023 to 2024 upon satisfaction of annual comprehensive assessment and remain as staff in the Group.

(iii) Grantee could vest 75% of his granted options on 1 April 2023 and the remaining 25% of his granted options on 1 April 2024 upon satisfaction of annual comprehensive assessment and remain as staff in the Group.

Save for the above, there are no other vesting conditions for the shares options granted under the LX Brothers Employee Incentive Plan.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme of the Company (Continued)

LX Brothers Employee Inventive Plan (Continued)

(b) Details of the share options outstanding during the year are as follows:

	2022 Number of share options	2022 Weighted average exercise price HK$
Outstanding at the beginning of the year	–	
Granted during the year	6,622,445	0.01
Capitalisation issue during the period	11,258,157	0.01
Outstanding at the end of the year	17,880,602	0.01
Exercisable at the end of the reporting period	–	

Movements of the share options held by the directors of the Company during the year ended 31 December 2022 (2021:Nil) are listed below in accordance with chapter 17 of the Listing Rules:

Date of Grant of share options	Visiting period	Exercise period of share	Exercise price HK$	At 23 March 2022	Granted during the year	Transfer during the year	Capitalisation Issue during the year	Outstanding at 31 December 2022
1/4/2022	1 years from the date of grant	1/4/2023 to 31/3/2032	0.01	–	264,863	3,127	455,588	723,578
1/4/2022	2 years from the date of grant	1/4/2024 to 31/3/2032	0.01	–	264,863	–	450,267	715,130
1/4/2022	3 years from the date of grant	1/4/2025 to 31/3/2032	0.01	–	264,863	–	450,267	715,130
1/4/2022	4 years from the date of grant	1/4/2026 to 31/3/2032	0.01	–	264,863	–	450,267	715,130
1/4/2022	1 years from the date of grant	1/4/2023 to 31/3/2032	0.01	–	250,139	–	425,238	675,377
1/4/2022	2 years from the date of grant	1/4/2024 to 31/3/2032	0.01	–	250,140	–	425,237	675,377
				–	1,559,731	3,127	2,656,864	4,219,722
					HK$	HK$	HK$	HK$
Weighted average exercise price per share					0.01	0.01	0.01	0.01

No share options were exercised or lapsed during the year ended 31 December 2022. The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2022 was HK$0.01 (2021: Nil). The options outstanding at the end of the year have a weighted average remaining contractual life of 9.25 years (2021: Nil) and the exercise price is HK$0.01 per share (2021: Nil).

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Fair value of share options and assumptions

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:

Grant date	1 April 2022
Share price on date of grant	HK$24.3 per share
Exercise price	HK$0.01 per share
Risk-free rate	2.20%
Expected volatility	
(expressed as a weighted average volatility used in the modelling under binomial lattice model)	56.2%
Expected dividend yield	0%
Option life	10 years

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

(i) provide the Group with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the eligible participants.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Fair value of share options and assumptions (Continued)

Beauty Bear Employee Incentive Plan (Continued)

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.

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 Global Offering, at the date of adoption of Beauty Bear Share Option Scheme, being 35,325,000 shares and representing approximately 10% of the issued share capital of the Company.

No options were granted under the Beauty Bear Employee Incentive Plan during the year ended 31 December 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.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Fair value of share options and assumptions (Continued)

Restricted Share Award Scheme (Continued)

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 as 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 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 cancelled 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 were granted to an employee of LX Shenzhen and were adjusted to 6,000,000 shares upon Capitalisation Issue. Save as disclosed above, no other award shares had been granted or agreed to be granted under the Restricted Share Award Scheme during the year ended 31 December 2022. The shares granted shall be vested in four equal lots on each of 1 April from 2023 to 2026 if the grantees remain as staff in the Group, 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 average fair value of each share and aggregate fair value of the shares held for the Restricted Share Award Scheme granted on 1 April 2022 was approximately HK$16.4 (equivalent to RMB13.3) and HK$36,370,000 (equivalent to RMB29,538,000) respectively and the Group recognised the share-based payment expenses of RMB12,573,000 (2021: nil) during the year ended 31 December 2022.

39. EVENTS AFTER THE REPORTING PERIOD

There will be no significant events after the reporting period.

40. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on 12 July 2023.

Financial Summary

A summary of the results and the assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements and the Company's prospectus dated 14 November 2022 is set out below:

RESULTS

	For the year ended 31 December			
	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,664,049**	1,330,402	1,022,169	500,339
Profit/(Loss) for the year	**99,948**	(448,702)	(177,127)	(60,346)
Attributable to:				
Owners of the Company	**99,948**	(448,702)	(177,302)	(60,187)
Non-controlling interests	**—**	—	175	(159)
Adjusted EBITDA (non-IFRS measure)*	**285,062**	224,018	164,484	36,850

ASSETS AND LIABILITIES

	As at 31 December			
	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,560,861**	1,177,817	941,079	629,743
Total liabilities	**753,549**	1,808,041	1,110,967	620,053
Net assets/(liabilities)	**807,312**	(630,224)	(169,888)	9,690
Equity attributable to owners of the Company	**807,312**	(630,224)	(169,888)	9,015
Non-controlling interest in equity	**—**	—	—	675

* *We define adjusted EBITDA as loss/profit plus finance cost, interest income, income tax expenses, depreciation of property, plant and equipment and right-of-use of assets, listing expenses, (gain)/loss of financial liabilities at FVTPL, share-based payment expenses and exchange losses.*