LX Technology Group Limited
凌雄科技集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2436)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors (the "**Directors**") of LX Technology Group Limited (the "**Company**") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the six months ended 30 June 2023 (the "**Period**"), together with comparative figures for the corresponding period in 2022. These unaudited condensed consolidated results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

FINANCIAL SUMMARY

The revenue of the Group for the Period was approximately RMB822.4 million (for the six months ended 30 June 2022: approximately RMB854.0 million).

The loss for the Period was approximately RMB42.4 million (for the six months ended 30 June 2022: approximately RMB5.8 million).

The adjusted EBITDA (a non-IFRS measure) for the Period was approximately RMB134.1 million (for the six months ended 30 June 2022: RMB127.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a leading device lifecycle management ("**DLM**") solution provider in the People's Republic of China ("**China**"). We are committed to delivering high-quality device recycling, device subscription and information technology ("**IT**") technical subscription services to our customers.

The first half of 2023 was characterised by opportunities and challenges. We steadfastly prioritised customer satisfaction and increased investments to enhance user experience. Owing to these efforts, we achieved notable success in market expansion. Leveraging our DLM solutions, we assisted our customers in curbing operational costs and facilitating their digital transformation. As at 30 June 2023, the number of long-term device subscription customers of the Company was 13,761, representing a year-on-year increase of approximately 38.1%.

In addition, we consistently enhanced the quality of our products and services to address the evolving and advanced demands of our customers. We continuously refined the design and research and development of our services and products based on our customer-orientated approach, ensuring the competitiveness of our services in the market and their ability to deliver actual value to customers. These initiatives allowed the Company to attract and serve more customers.

We take pride in our substantial achievements in this highly competitive market. However, we are acutely aware of the enduring challenges. As technology continues to evolve and the market undergoes constant fluctuations, we must persistently learn and adapt to maintain our competitive edges. We will further strengthen the cooperation with customers, deepen our understanding of their needs and align our solutions with market conditions.

Our Business Model

Our DLM solutions directly tackle the weaknesses 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 Period was primarily generated from the following service categories:

- *Device recycling business.* We purchase de-commissioned IT devices from enterprises for use in our device subscription services after refurbishment or sale through our proprietary quotation platform. 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-installing device configurations and customizing system settings. We offer tailor-made short-term and long-term device subscription services to satisfy our customers' needs for diverse business scenarios.

- *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 small and medium enterprises for our subscription services.

Device recycling business

For the Period, the Group's revenue from device recycling business amounted to approximately RMB582.6 million, representing a decrease of approximately 7.8% as compared to approximately RMB632.1 million for the same period in 2022.

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

	Six months ended 30 June		
	2023	2022	*Growth Rate*
Number of devices sold *(device)*	**341,957**	472,682	-27.7%
Number of device recycling customers	**766**	596	28.5%
Average revenue per device recycling customer *(RMB)*	**760,579**	1,060,598	-28.3%
Average sales value *(RMB/device)*	**1,377.4**	1,261.2	9.2%

Device subscription business

For the Period, the Group's revenue from device subscription business amounted to approximately RMB162.6 million, representing an increase of approximately 8.1% as compared to approximately RMB150.4 million for the same period in 2022.

The following table sets forth our revenue generated from subscription services, and total device subscription volume from brand-new devices and second-hand devices, respectively, for the periods indicated:

	Six months ended 30 June		
	2023	2022	*Growth Rate*
Revenue from device subscription services *(RMB'000)*	**162,561**	150,368	8.1%
— Brand-new devices	**134,876**	122,462	10.1%
— Second-hand devices	**27,685**	27,906	-0.8%
Total device subscription volume *(device)*	**2,700,602**	2,243,465	20.4%
— Brand-new devices	**2,102,924**	1,668,122	26.1%
— Second-hand devices	**597,678**	575,343	3.9%
Total number of devices available for subscription	**533,660**	488,993	9.1%

IT technical subscription services

For the Period, the Group's revenue from IT technical subscription services amounted to approximately RMB77.2 million, representing an increase of approximately 8.0% as compared to approximately RMB71.5 million for the same period in 2022.

The following table sets forth our revenue generated from the long-term and short-term IT technical subscription services, respectively, for the periods indicated:

	Six months ended 30 June		
	2023	2022	
	(RMB'000)	*(RMB'000)*	*Growth Rate*
Revenue from IT technical subscription services	**77,227**	71,529	8.0%
— Long-term subscriptions	**57,332**	54,692	4.8%
— Short-term subscriptions	**19,895**	16,837	18.2%

Future Outlook

As China's economy continues its gradual recovery from the impact of the pandemic, it is expected that it will sustain a steady development trend in the second half of 2023 with higher economic quality. In order to better facilitate customer's work efficiency, the Group will continue to seize developmental opportunities and enhance its service standards and quality.

In this new cycle, we aim to effectively assist customers in reducing cost and boosting efficiency. We expect that our brand awareness and industry influence will be enhanced through online and offline marketing and brand promotion, which will position us to serve more corporate customers and provide new driving force for the Group's long-term growth. Moreover, we will allocate more resources to expand our customer base and market share in target markets, including further penetration into core cities and the deepening of business collaboration with partners. We will also continue to optimise the revenue and cost structures across various business segments, enabling us to enhance business resilience and generate greater value for the Company's shareholders (the "**Shareholder(s)**").

In respect of our device recycling business, the Group will remain committed to refining its comprehensive services in order to create the synergy between the device recycling business and the subscription services, facilitate sharing among customers and promote equipment recycling, enabling the establishment of a tighter cooperative network. The operational system empowered by digital technology will encourage the recycling of IT devices, which in turn will reduce the negative impacts on the environment and promote a sustainable development ecosystem.

In respect of device and IT technical subscription services, the Group will continue to expand its competitive edges in the industry and further consolidate its leading position in the market. Committed to its customer-centric principles, it will provide customers with holistic hardware and technical support, continually improving customer experience and meeting their requirements across various office scenarios. In addition, the Group will further carry out system upgrades, product research and development and enhancement, and the reinforcement of SaaS (software-as-a-service) functions in an effort to satisfy the asset management needs of customers.

Looking ahead to the second half of 2023, the Group will, as always, adhere to its foundational values, seize market opportunities to expand business footprint, and sustain long-term diversified growth. This commitment aims to create greater value for our Shareholders, customers, suppliers and partners.

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 periods indicated:

	Six months ended 30 June				*Growth*
	2023		2022		*Rate*
	RMB'000	*%*	*RMB'000*	*%*	*%*
Revenue					
Device recycling income	**582,603**	**70.8**	632,117	74.0	-7.8
Device subscription services	**162,561**	**19.8**	150,367	17.6	8.1
IT technical subscription services	**77,227**	**9.4**	71,529	8.4	8.0
Total	**822,391**	**100.0**	854,013	100.0	-3.7

For the Period, the total revenue of the Group was approximately RMB822.4 million (for the six months ended 30 June 2022: approximately RMB854.0 million), representing a decrease of approximately 3.7% as compared with the same period in 2022, mainly attributable to the decrease in revenue of our device recycling segment during the Period.

Device recycling income

The decrease in the device recycling income during the Period as compared with the same period in 2022 was mainly due to the decrease in availability of de-commissioned IT devices as a result of the decrease in volume of de-commissioned IT devices disposed of by our upstream suppliers during the Period.

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:

	Six months ended 30 June				Growth
	2023		2022		Rate
	RMB'000	*%*	*RMB'000*	*%*	*%*
Tablet computers and mobile phones	**388,593**	**66.7**	444,083	70.3	-12.5
Laptop computers and other IT devices	**194,010**	**33.3**	188,034	29.7	3.2
Total	**582,603**	**100.0**	632,117	100.0	-7.8

Revenue from device subscription services

During the Period, the increase in revenue from device subscription services as compared with the same period in 2022 was mainly due to (i) the growth in number of long-term device subscription customers from 9,966 for the six months ended 30 June 2022 to 13,761 for the Period; (ii) the growth in revenue of long-term device subscription from approximately RMB123.2 million for the six months ended 30 June 2022 to approximately RMB140.3 million for the Period; and (iii) the increase in total device subscription volume from 2,243,465 devices for the six months ended 30 June 2022 to 2,700,602 devices for the Period as more devices were subscribed to satisfy the growing business needs of enterprises.

Revenue from IT technical subscription services

During the Period, the increase in revenue from IT technical subscription services as compared with the same period in 2022 was primarily attributable to (i) the increase in average monthly subscription volume under IT technical subscription services from 257,409 devices for the six months ended 30 June 2022 to 314,600 devices for the Period; and (ii) the increase in number of customers for IT technical subscription services from 10,367 for the six months ended 30 June 2022 to 15,424 for the Period.

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 periods indicated:

	Six months ended 30 June			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Shenzhen	**662,658**	**80.6**	691,067	80.9
Shanghai	**30,389**	**3.7**	43,441	5.1
Wuhan	**48,411**	**5.9**	46,979	5.5
Beijing	**42,300**	**5.1**	37,993	4.4
Guangzhou	**23,061**	**2.8**	19,878	2.3
Others[(1)]	**15,572**	**1.9**	14,655	1.8
Total	**822,391**	**100.0**	854,013	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 amortization, which primarily include depreciation of equipment for subscription; (iii) staff costs, representing salaries and welfare for our business operation personnel; and (iv) others, mainly representing costs related to short-term device subscription services such as rentals for venue and wages for temporary staff. Our cost of sales was approximately RMB752.5 million for the Period (for the six months ended 30 June 2022: approximately RMB754.4 million). The decrease in cost of sales during the Period as compared to the same period in 2022 was mainly attributable to the decrease in the cost of inventories sold by approximately RMB25.1 million from approximately RMB616.6 million for the six months ended 30 June 2022 to approximately RMB591.5 million for the Period as less de-commissioned devices were purchased which was in line with the decrease in revenue of our device recycling segment; and partially offset by the increase in cost of sales for our device subscription segment by approximately RMB20.1 million from approximately RMB113.2 million for the six months ended 30 June 2022 to approximately RMB133.3 million for the Period which was in line with our increase in revenue in our device subscription segment as discussed above.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. For the Period, our gross profit was approximately RMB69.9 million, representing a decrease of approximately 29.8% as compared with approximately RMB99.6 million for the same period in 2022 as the decrease in revenue outpaced the decrease in cost of sales. The gross profit margin of the Group decreased from approximately 11.7% for the six months ended 30 June 2022 to approximately 8.5% for the Period.

Other Income

For the Period, other income remained stable at approximately RMB8.6 million as compared to approximately RMB8.5 million for the six months ended 30 June 2022.

Distribution and selling expenses

The distribution and selling expenses decreased by approximately 19.6% from approximately RMB64.9 million for the six months ended 30 June 2022 to approximately RMB52.2 million for the Period, primarily attributable to (i) the decrease in customer acquisition, marketing and promotion expenses by approximately RMB11.8 million from approximately RMB21.4 million for the six months ended 30 June 2022 to approximately RMB9.6 million for the Period; and (ii) the decrease in salaries and welfare by approximately RMB3.9 million from approximately RMB33.2 million for the six months ended 30 June 2022 to approximately RMB29.3 million for the Period; and partially offset by the increase in share-based payments expense by approximately RMB3.5 million to approximately RMB10.9 million for the Period in connection with the new shares of the Company (the "**Share(s)**") issued for our employee incentive plans in April 2022. Our distribution and selling expenses as a percentage of revenue decreased from approximately 7.6% for the six months ended 30 June 2022 to approximately 6.3% for the Period.

Administrative Expenses

The administrative expenses increased by approximately 39.3% from approximately RMB35.4 million for the six months ended 30 June 2022 to approximately RMB49.3 million for the Period, primarily due to (i) the increase in the share-based payments expense by approximately RMB7.8 million from approximately RMB13.6 million for the six months ended 30 June 2022 to approximately RMB21.4 million for the Period in connection with the new Shares issued for our employee incentive plans in April 2022; and (ii) the recognition of one-off professional fees of approximately RMB3.7 million for the Period; and partially offset by the decrease in salaries and welfare by approximately RMB1.1 million from approximately RMB13.4 million for the six months ended 30 June 2022 to RMB12.3 million for the Period. Our administrative expenses as a percentage of revenue increased from approximately 4.1% for the six months ended 30 June 2022 to approximately 6.0% for the Period.

Research and Development Expenses

The research and development expenses decreased by approximately 2.3% from approximately RMB13.0 million for the six months ended 30 June 2022 to approximately RMB12.7 million for the Period, primarily due to (i) the decrease in salaries and welfare by approximately RMB0.8 million from RMB8.8 million for the six months ended 30 June 2022 to RMB8.0 million for the Period; and (ii) the decrease in depreciation and amortisation by approximately RMB0.4 million from approximately RMB0.5 million for the six months ended 30 June 2022 to RMB0.1 million for the Period; and partially offset by the increase in the share-based payments expense by approximately RMB0.9 million from approximately RMB2.5 million for the six months ended 30 June 2022 to approximately RMB3.4 million for the Period in connection with the new Shares issued for our employee incentive plans in April 2022. Our research and development expenses as a percentage of revenue remained stable at approximately 1.5% for the six months ended 30 June 2022 and 2023, respectively.

Finance Costs

The finance costs decreased by approximately 9.8% from approximately RMB22.0 million for the six months ended 30 June 2022 to approximately RMB19.8 million for the Period as we optimised our borrowings structure to increase the ratio of bank borrowings which charge lower interest rates.

Income Tax Credit

Our income tax credit decreased from approximately RMB1.3 million for the six months ended 30 June 2022 to approximately RMB0.7 million for the Period.

Loss and Total Comprehensive Income/(Expense) for the Period

A loss of approximately RMB42.4 million for the Period was recorded, compared to a loss of approximately RMB5.8 million for the six months ended 30 June 2022. The increase in net loss was mainly attributable to (i) the absence of the fair value changes of financial liabilities at fair value through profit or loss ("**FVTPL**") for the Period as compared to the fair value gain of financial liabilities at FVTPL of approximately RMB36.4 million for the corresponding period in 2022; (ii) the slight decrease in revenue for approximately 3.7% from approximately RMB854.0 million for the corresponding period in 2022 to approximately RMB822.4 million for the Period; and (iii) the increase in share-based payment expenses for approximately 51.6% from approximately RMB23.6 million for the corresponding period in 2022 to approximately RMB35.7 million for the Period.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA")

The adjusted EBITDA (a non-International Financial Reporting Standard ("**IFRS**") measure) for the Period increased by approximately 5.2% from approximately RMB127.5 million for the six months ended 30 June 2022 to approximately RMB134.1 million for the Period.

Adjusted Loss

The adjusted loss (a non-IFRS measure) for the Period was approximately RMB11.4 million as compared to the adjusted loss of approximately RMB5.2 million for the six months ended 30 June 2022.

Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted loss 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 loss 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 as loss plus listing expenses, (gain)/loss of financial liabilities at FVTPL, share-based payment expenses, foreign exchange gain and other one-off professional fees. We define adjusted EBITDA as loss 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, foreign exchange gain and other one-off professional fees. 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 of the Shares (the "**Listing**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as part of the reorganisation and the conversion from preferred shares of the Company to the Shares upon Listing. Subsequent to the Listing, the Company has not recorded, and does not expect to record, any additional fair value changes of financial liabilities at FVTPL. Share-based payments expense of approximately RMB35.7 million for the Period comprised expenses recognised under distribution and selling expenses, administrative expenses and research and development expenses in the amounts of approximately RMB10.9 million, RMB21.4 million and RMB3.4 million, respectively.

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Reconciliation of loss for the period and adjusted loss (a non-IFRS measure)		
Loss for the period	**(42,359)**	(5,830)
Non-IFRS measure:		
Adjusted profit		
Add:		
Listing expenses	**—**	13,488
Fair value change of financial liabilities at FVTPL	**—**	(36,417)
Share-based payments expense	**35,721**	23,555
Foreign exchange gain	**(8,382)**	—
One-off professional fees	**3,655**	—
Non-IFRS measure:		
Adjusted loss	**(11,365)**	(5,204)
Reconciliation of loss for the period and adjusted EBITDA (a non-IFRS measure)		
Loss for the period	**(42,359)**	(5,830)
Add:		
Income tax expense/(credit)	**(743)**	(1,275)
Finance costs	**19,840**	21,995
Interest income	**(2,325)**	(182)
Depreciation of property, plant and equipment and right-of-use assets	**128,739**	112,173
Non-IFRS measure:		
EBITDA	**103,152**	126,881
Add:		
Listing expenses	**—**	13,488
Fair value change of financial liabilities at FVTPL	**—**	(36,417)
Share-based payments expense	**35,721**	23,555
Foreign exchange gain	**(8,382)**	—
One-off professional fees	**3,655**	—
Non-IFRS measure:		
Adjusted EBITDA	**134,146**	127,507

Current Assets

As at 30 June 2023, the current assets of the Group were approximately RMB816.5 million, representing an increase of approximately 12.3% as compared with approximately RMB727.1 million as at 31 December 2022. As at 30 June 2023, the current ratio (current assets divided by current liabilities) of the Group was approximately 1.4 times (as at 31 December 2022: approximately 1.2 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 decreased from approximately RMB802.9 million as at 31 December 2022 to approximately RMB764.4 million as at 30 June 2023, primarily attributable to the increase in depreciation charge amounting to approximately RMB128.7 million for the Period.

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 RMB76.6 million as at 31 December 2022 to approximately RMB94.8 million as at 30 June 2023, mainly due to the increase in purchase of de-commissioned IT devices close to 30 June 2023.

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 lease receivables increased from approximately RMB64.9 million as at 31 December 2022 to approximately RMB125.2 million as at 30 June 2023, primarily due to the timing of settlement of certain trade and lease receivables which has yet to fall due as at 30 June 2023.

Other Receivables, Deposits and Prepayments

Our other receivables, deposits and prepayments increased from approximately RMB117.3 million as at 31 December 2022 to approximately RMB123.8 million as at 30 June 2023, primarily due to the increase in deposits paid for purchase of IT devices for our device recycling segment.

Trade Payables

Trade payables represent procurements payable to suppliers for the purchase of IT devices. As at 30 June 2023, trade payables amounted to approximately RMB118.6 million, representing a decrease of approximately RMB6.6 million as compared with approximately RMB125.1 million as at 31 December 2022, primarily attributable to timely settlement of certain trade payables.

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 30 June 2023, other payables and accruals amounted to approximately RMB56.7 million, representing a decrease of approximately RMB3.9 million as compared with approximately RMB60.6 million as at 31 December 2022, primarily due to the decrease in accrued listing expenses and issue costs by approximately RMB3.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Our cash requirements are principally funded by cash generated from operations, net proceeds from the Global Offering (as defined in the prospectus of the Company dated 14 November 2022 (the "**Prospectus**")) and other debt financings.

Bank Balances and Cash

Our bank balance and cash consist of bank balances and cash and restricted deposits. Our bank balance and cash amounted to approximately RMB412.1 million as at 30 June 2023 (as at 31 December 2022: approximately RMB183.8 million). The increase in bank balance and cash was mainly due to the Redemptions (as defined below). As at 30 June 2023, the Group's cash and cash equivalents were denominated in Renminbi, Hong Kong dollars and United States dollars.

Bank and Other Borrowings

As at 30 June 2023, we had bank borrowings with a carrying amount of approximately RMB389.0 million (as at 31 December 2022: approximately RMB329.3 million) and other borrowings of approximately RMB221.6 million (as at 31 December 2022: approximately RMB221.6 million), such borrowings comprise (i) approximately RMB491.5 million (as at 31 December 2022: approximately RMB436.2 million) of unsecured and guaranteed bank and other borrowings; and (ii) approximately RMB119.1 million (as at 31 December 2022: 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 Period, the effective interest rates of the Group's borrowings ranged from 4.0% to 10.1% per annum (as at 31 December 2022: 4.0% to 11.8% per annum). Our borrowings were all denominated in RMB and carried borrowing terms ranging from one year to three years.

Gearing Ratio

The calculation of gearing ratio is based on total debt for the Period divided by total equity for the respective year and multiplied by 100.0%. The gearing ratio was 76.3% as at 30 June 2023 (as at 31 December 2022: 68.2%).

Significant Investments Held, Material Acquisitions and Disposals

In November 2022, the Company subscribed two redeemable principal and return guaranteed money market funds (the "**Money Market Funds**") with two different segregated portfolios (the "**Subscriptions**") with an aggregated principal of approximately HK$280.0 million (equivalent to RMB256.3 million). On 31 March 2023, the Subscriptions were fully redeemed together with the agreed interest. For details, please refer to the announcement of the Company dated 4 May 2023.

Save as disclosed above, the Group had no significant investments, acquisitions and disposals of subsidiaries, associates or joint ventures during the Period.

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 Period. 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 30 June 2023.

Foreign Exchange Risk

The Group conducts its business with all of the transactions settled in Renminbi ("**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 30 June 2023, the Group had 771 full-time employees (as at 31 December 2022: 761 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 Period, the remuneration for our employees, but excluding the Directors' remunerations, were approximately RMB93.9 million (for the six months ended 30 June 2022: approximately RMB85.2 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

As disclosed in the announcement of the Company dated 14 July 2023, the Company has appointed Grant Thornton Advisory Services Limited (the "**Independent Investigator**") to conduct an independent investigation (the "**Independent Investigation**") into the audit issues raised by the former auditor of the Company in relation to the Subscriptions. The Independent Investigator has issued its report of findings of the Independent Investigation. The Company has also appointed SHINEWING Risk Services Limited (the "**IC Consultant**") to conduct an independent internal control review on the Group's internal control system (the "**Independent Internal Control Review**"). The IC Consultant has completed the Independent Internal Control Review, the follow-up review on the remedial measures adopted by the Company, and has issued a report of its findings. Please refer to the said announcement for details of the findings of the Independent Investigation and the Independent Internal Control Review.

Save as disclosed above, no other event has taken place subsequent to 30 June 2023 and up to the date of this announcement that may have a material impact on the Group's operating and financial performance that needs to be disclosed.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

We aim 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 as set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance.

Save for the deviation for reasons set out below, the Group has applied the principles of good corporate governance and complied with the code provisions as set out in Part 2 of the Corporate Governance Code during the Period.

Pursuant to code provision C.2.1 of Part 2 of the Corporate Governance 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 Zuoxiong ("**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 Part 2 of the Corporate Governance 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 announcement, the management has promptly arranged the circulation of monthly updates to the Directors in accordance to code provision D.1.2 of Part 2 of the Corporate Governance Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a combined code (the "**Code**") of conduct for securities transactions by the Directors which comprises a comprehensive "Code of Conduct for Securities Transactions by Directors" and the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules.

Upon specific enquiry, all Directors confirmed that they have complied with the Code during the Period.

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.

REVIEW OF INTERIM RESULTS

The Company established the Audit Committee in compliance with the Corporate Governance Code. The Audit Committee reviewed the unaudited consolidated interim financial statements for the Period, and discussed with the management and auditors of the Company the accounting principles and practices adopted by the Group.

The independent auditor of the Company, ZHONGHUI ANDA CPA Limited, has carried out a review of the interim financial information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

INTERIM DIVIDEND

The Board has resolved not to distribute any interim dividend for the Period.

PUBLICATION OF INTERIM RESULTS AND 2023 INTERIM REPORT

This announcement is published on the respective websites of the Company (www.bearrental.com) and the Stock Exchange (http://www.hkexnews.hk). The 2023 interim report will be despatched to the Shareholders and will be made available on the respective websites of the Company and the Stock Exchange as and when appropriate.

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange was halted with effect from 2:57 p.m. on 23 March 2023 and will continue to be suspended, pending the fulfilment of the guidance on the resumption of trading in the Shares issued by the Stock Exchange as set out in the announcement of the Company dated 11 May 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	**Six months ended 30 June**	
		2023	2022
		RMB'000	*RMB'000*
		(unaudited)	(audited)
REVENUE	*4*	**822,391**	854,013
Cost of sales		**(752,484)**	(754,392)
GROSS PROFIT		**69,907**	99,621
Other income	*5*	**8,607**	8,533
Other gains and losses		**15,922**	—
Fair value change of financial liabilities at fair value through profit or loss ("**FVTPL**")		**—**	36,417
Impairment losses under expected credit loss model, net of reversal		**(3,541)**	(2,921)
Distribution and selling expenses		**(52,156)**	(64,877)
Administrative expenses		**(49,287)**	(35,376)
Research and development expenses		**(12,714)**	(13,019)
Finance costs	*6*	**(19,840)**	(21,995)
Listing expenses		**—**	(13,488)
LOSS BEFORE TAX	*7*	**(43,102)**	(7,105)
Income tax credit	*8*	**743**	1,275
LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD		**(42,359)**	(5,830)
LOSS PER SHARE	*10*		
— Basic *(RMB)*		**(0.14)**	(0.05)
— Diluted *(RMB)*		**(0.14)**	(0.17)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	**As at 30 June 2023** *RMB'000* **(unaudited)**	As at 31 December 2022 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment and right-of-use assets		**764,352**	802,861
Deposits paid for acquisition of property, plant and equipment		**3,445**	244
Other receivables, deposits and prepayments		**5,128**	4,676
Restricted deposits		**5,007**	12,818
Deferred tax assets		**13,594**	13,186
Total non-current assets		**791,526**	833,785
Current assets			
Inventories		**94,813**	76,630
Trade and lease receivables	*11*	**125,200**	64,879
Other receivables, deposits and prepayments		**118,695**	112,604
Tax recoverable		**499**	1,159
Financial assets at FVTPL		**70,203**	300,811
Restricted deposits		**20,263**	14,719
Cash and cash equivalents		**386,808**	156,274
Total current assets		**816,481**	727,076
Current liabilities			
Trade payables, other payables and accruals	*12*	**175,296**	185,763
Tax liabilities		**21**	19
Borrowings		**411,201**	406,358
Lease liabilities		**8,469**	6,424
Contract liabilities		**1,449**	425
Total current liabilities		**596,436**	598,989

	As at 30 June 2023 *RMB'000* (unaudited)	As at 31 December 2022 *RMB'000* (audited)
Net current assets	**220,045**	128,087
Total assets less current liabilities	**1,011,571**	961,872
Non-current liabilities		
Borrowings	**199,371**	144,556
Lease liabilities	**8,371**	6,495
Deferred tax liabilities	**3,155**	3,509
Total non-current liabilities	**210,897**	154,560
NET ASSETS	**800,674**	807,312
Capital and reserves		
Share capital	**3,158**	3,158
Reserves	**797,516**	804,154
TOTAL EQUITY	**800,674**	807,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. BASIS OF PREPARATION

These condensed consolidated financial statements ("**Interim Financial Information**") have been prepared in accordance with International Accounting Standard 34 issued by the International Accounting Standards Board ("**IASB**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Interim Financial Information does not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's 2022 annual consolidated financial statements for the year ended 31 December 2022 ("**2022 Annual Report**"). The accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in 2022 Annual Report.

3. APPLICATION OF AMENDMENTS TO IFRSs

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("**IFRSs**") issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2023. IFRSs comprise International Financial Reporting Standards ("**IFRS**"); International Accounting Standards ("**IAS**"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The application of these new IFRSs will not have material impact on the financial statements of the Group. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

4. 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

For the six months ended 30 June 2023

	Device recycling business *RMB'000* **(unaudited)**	**Device subscription services** *RMB'000* **(unaudited)**	**Total** *RMB'000* **(unaudited)**
Device recycling income			
— Mobile devices	**388,593**	**—**	**388,593**
— Non-mobile devices	**194,010**	**—**	**194,010**
Device subscription services			
— Short-term device subscription	**—**	**22,287**	**22,287**
— Long-term device subscription	**—**	**140,274**	**140,274**
IT technical subscription services	**—**	**77,227**	**77,227**
	582,603	**239,788**	**822,391**

For the six months ended 30 June 2022

	Device recycling business *RMB'000* (audited)	Device subscription services *RMB'000* (audited)	Total *RMB'000* (audited)
Device recycling income			
— Mobile devices	444,083	—	444,083
— Non-mobile devices	188,034	—	188,034
Device subscription services			
— Short-term device subscription	—	27,126	27,126
— Long-term device subscription	—	123,241	123,241
IT technical subscription services	—	71,529	71,529
	632,117	221,896	854,013

Geographical information

The Group operates within one geographical segment during the six months ended 30 June 2023 and 2022 because all of its revenue is generated in the People's Republic of China (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.

Revenue

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Type of goods or services		
Device recycling income	**582,603**	632,117
IT technical subscription services	**77,227**	71,529
Short-term device subscription	**22,287**	27,126
Total	**682,117**	730,772
Timing of revenue recognition		
At a point in time	**582,603**	632,117
Over time	**99,514**	98,655
	682,117	730,772

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Device recycling income	**582,603**	632,117
Device subscription services	**99,514**	98,655
Revenue from contracts with customers	**682,117**	730,772
Lease income from device subscription services	**140,274**	123,241
Total revenue	**822,391**	854,013

5. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Interest income	**2,325**	182
Government subsidies *(note)*	**2,492**	5,292
Compensation income from customers	**3,790**	3,059
	8,607	8,533

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.

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Interest expenses on borrowings	**19,427**	21,370
Interest expenses on lease liabilities	**413**	625
	19,840	21,995

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Directors' emoluments	**8,016**	6,015
Depreciation of property, plant and equipment and right-of-use assets	**128,739**	112,173
Gain on disposal of property, plant and equipment	**(793)**	—
Reversal of write-down of inventories	**—**	(219)
Cost of inventories recognised as an expense	**570,974**	615,804

8. INCOME TAX CREDIT

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Current tax — the PRC		
Charge for the year	**61**	7
Deferred tax	**(804)**	(1,282)
	(743)	(1,275)

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 six months ended 30 June 2023 and 2022.

The income tax provision of the subsidiaries operating in the PRC has been calculated at the tax rate of 25% on the taxable income for the reporting period, except for LX Technology (Shenzhen) Co., Ltd. ("**LX Shenzhen**") and certain subsidiaries, based on the existing legislation, interpretations and practices 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 six months ended 30 June 2023 and 2022. 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 of the Company in the PRC were qualified as "Small Low-profit Enterprise". 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 six months ended 30 June 2023 and 2022.

9. DIVIDEND

No dividend was declared or paid by the Company since its incorporation in respect of the six months ended 30 June 2023 and 2022, nor any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Loss for the period attributable to owners of the Company for the purpose of basic loss per shares	**(42,359)**	(5,830)
Effect of dilutive potential loss in respect of financial liabilities at FVTPL	**—**	(36,417)
Loss for the period attributable to owners of the Company for the purposes of diluted loss per share	**(42,359)**	(42,247)

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**306,132,542**	119,277,206
Effect of dilutive potential ordinary shares:		
— Financial liabilities at FVTPL	**—**	132,842,193
Weighted average number of ordinary shares for the purpose of diluted loss per share	**306,132,542**	252,119,399

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.

The computation of diluted earnings per share for the six months ended 30 June 2023 does 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.

11. TRADE AND LEASE RECEIVABLES

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade and lease receivables		
— third parties	**128,795**	67,459
— related parties	**7,275**	4,750
	136,070	72,209
Less: allowance for expected credit losses	**(10,870)**	(7,330)
	125,200	64,879

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:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**101,474**	49,784
More than 3 months but within 6 months	**14,910**	7,738
More than 6 months but within 1 year	**5,905**	4,940
Over 1 year	**2,911**	2,417
	125,200	64,879

Note: The Group has receivables from its related parties at the end of reporting period for providing device subscription services, IT technical subscription services and device recycling income.

12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	As at 30 June 2023 *RMB'000* (unaudited)	As at 31 December 2022 *RMB'000* (audited)
Trade payables	**118,570**	125,123
Other payables and accruals		
Accrued staff costs and retirement benefit scheme contributions	**25,375**	23,594
Advance from leasing customers under device subscription service	**17,160**	17,087
Other tax payables	**1,369**	2,154
Secured and other deposits received	**6,021**	4,946
Accrued expenses	**3,620**	5,714
Accrued listing and issue costs	**2,386**	6,249
Others	**795**	896
	56,726	60,640
	175,296	185,763
Represented by:		
— third parties	**164,859**	183,318
— related parties *(note)*	**10,437**	2,445
	175,296	185,763

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.

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

	As at 30 June 2023 *RMB'000* **(unaudited)**	As at 31 December 2022 *RMB'000* (audited)
Within 6 months	**104,643**	88,185
6–12 months	**2,995**	22,104
Over 1 year	**10,932**	14,834
	118,570	125,123

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

Hong Kong, 28 August 2023

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