创新奇智
AInnovation

Qingdao AInnovation Technology Group Co., Ltd
青島創新奇智科技集團股份有限公司

(A joint stock company incorporated
in the People's Republic of China with limited liability)
（於中華人民共和國註冊成立的股份有限公司）

Stock Code 股份代號: 2121

2023

ANNUAL REPORT
年度報告

CONTENTS

Chairman's and CEO's Statement

Dear Shareholders,

At present, a new wave of technological revolution and industrial transformation has emerged as a significant force driving the global economic cycle. In 2023, with the rapid rise of large model technology marked by ChatGPT, we welcome a new era of generative pre-training large models, marking the entry of AI into the AI2.0 era. Large models not only upgrade our knowledge of the language understanding and generative capabilities of AI, but also indicate a profound productivity reconstruction and industrial revolution.

Undoubtedly, AI2.0 will be the greatest technological and platform revolution in history. As a representative of the new quality productive forces, AI large model will have a profound impact across various industries! We firmly believed that "industrial large language model (LLM) + industrial robot" model will change the operational model of traditional manufacturing industry, give big boosts to productivity and accelerate intelligent upgrade and digital transformation of such industry in PRC. The integration of "Automation+ Informatization+ Intelligence" will inject strong impetus into the new industrialization. It is not only the important trend of China's development for the next decade, but the core business orientation of AInnovation, and is the path we will steadily step forward.

As an active participant and promoter of this transformation, AInnovation takes "AI + manufacturing" as its core strategy, focuses on the specialized and new area, dedicating to become a leader in respect of artificial intelligence empowering new industrialization. We know that the value of large models, particularly the vertical large models, is presented in application. Only by deeply integrating industrial scenarios, immersing industrial experience and motivating data vitality can the huge commercial value of vertical large models be fully exerted. In this aspect, we possess a built-in advantage of "technologies available for application". We always dedicate to closely combining technologies with industrial scenarios, realizing productization, engineering and commercialization of technologies with high efficiency.

In 2023, we actively developed and transformed towards high quality, with growth focus changing from high speed to high quality. Under new market environment, we paid more attention to manufacturing industry, business quality and going concern capability. In the face of opportunities and challenges in a rapidly changing market, our business continues to develop healthily, with continued growth in revenue, improved gross margins and a further narrowing of our adjusted net loss rate. Our customers increased significantly by a total of 105 as compared to last financial year. In particular, contribution from customers in manufacturing industry increased significantly, and the proportion of revenue from manufacturing industry in specialized and new area increased to 67.2% significantly, which still demonstrated our strong commercialization capability. Meanwhile, we constantly optimized our business structure, respected the market rules, selectively and actively adjusted strategies, and paid more attention to sustainable high-quality income. We adopted more prudent and steady operation strategies, leading to obvious improvement in the net cash used in operating activities significantly compared to the previous fiscal year. The high-quality growth laid a solid foundation for the corporate's future development.

Looking to the future, AInnovation will continue to be firmly committed and move forward, focusing on manufacturing, promoting the widespread application of AI in advanced manufacturing and empowering the takeoff of new industrialization. We will maintain a forward-looking vision, take value-oriented actions, and seize opportunities in the era of AI2.0 and Made in China, thus creating more value for shareholders!

Let's work together towards a better future!

Yours sincerely,

Kai-Fu Lee
Chairman of AInnovation

Xu Hui
Executive Director and CEO of AInnovation

Corporate Information

Below is the basic information of the Company:

COMPANY'S LEGAL NAME

青島創新奇智科技集團股份有限公司

COMPANY'S ENGLISH NAME

Qingdao AInnovation Technology Group Co., Ltd*

BOARD OF DIRECTORS

Executive Director

Mr. Xu Hui *(Chief Executive Officer)*

Non-Executive Directors

Dr. Kai-Fu Lee *(Chairman)*
Mr. Wang Hua
Mr. Wang Jinqiao

Independent Non-Executive Directors

Mr. Xie Deren
Ms. Ko Wing Yan Samantha
Ms. Jin Keyu

AUDIT COMMITTEE

Mr. Xie Deren *(Chairman)*
Mr. Wang Hua
Ms. Ko Wing Yan Samantha

REMUNERATION COMMITTEE

Ms. Ko Wing Yan Samantha *(Chairwoman)*
Mr. Wang Jinqiao
Mr. Xie Deren

NOMINATION COMMITTEE

Dr. Kai-Fu Lee *(Chairman)*
Ms. Ko Wing Yan Samantha
Ms. Jin Keyu

SUPERVISORY COMMITTEE

Ms. Lin Ying
Ms. Duan Chengjin
Mr. Nie Mingming (resigned on 30 January 2024)
Ms. Gao Lingyan (appointed on 30 January 2024)

JOINT COMPANY SECRETARIES

Mr. Xiao Lei (resigned on 30 January 2024)
Ms. Lv Hongyu (appointed on 30 January 2024)
Ms. Kwan Sau In

AUTHORIZED REPRESENTATIVES

Mr. Xu Hui
Mr. Xiao Lei (resigned on 30 January 2024)
Ms. Lv Hongyu (appointed on 30 January 2024)

REGISTERED OFFICE AND HEADQUARTER

Room 501
Block A, Haier International Plaza
No. 939 Zhenwu Road, Economic Development Zone
Jimo District, Qingdao
Shandong, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

* For identification purposes only

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Clifford Chance
27/F, Jardine House
One Connaught Place
Central
Hong Kong

As to PRC Law
King & Wood Mallesons
18/F, East Tower
World Financial Center
No. 1 Dongsanhuan Zhonglu
Chaoyang District, Beijing
PRC

COMPLIANCE ADVISER

Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANK

Bank of China Jimo Branch
No. 973 Lanao Road,
Jimo District
Qingdao, Shandong
PRC

STOCK CODE

2121

COMPANY'S WEBSITE

https://www.ainnovation.com

INVESTOR RELATIONSHIP

Telephone: (86)1082169566
Email: ir@ainnovation.com

Definition

"Articles of Association"	the articles of association of the Company, as amended, modified or supplemented from time to time
"Audit Committee"	audit committee of the Board
"Board" or "Board of Directors"	the board of directors of our Company
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report only, do not apply to Hong Kong, the Special Administrative Region of Macau and Taiwan
"Company" or "our Company" or "AInnovation"	Qingdao AInnovation Technology Group Co., Ltd (青島創新奇智科技集團股份有限公司), which was established with limited liabilities under the laws of the PRC on 6 February 2018 and converted into a joint stock limited company on 19 May 2021, whose H shares are listed on the Main Board of Stock Exchange on 27 January 2022 (stock code: 2121)
"Director(s)"	the director(s) of our Company
"Group" or "our Group" or "we" or "us"	our Company together with our subsidiaries
"H Share(s)"	overseas-listed shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are to be traded in Hong Kong Dollars and are listed and traded on the Stock Exchange
"HK$" or "HKD" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Latest Practicable Date"	10 April 2024, being the latest practicable date for ascertaining certain information in this annual report before its publication
"Listing Date"	the date, on which the H Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange, i.e. 27 January 2022

"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented, or otherwise modified from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules
"Nomination Committee"	nomination committee of the Board
"Prospectus"	the prospectus of the Company dated 17 January 2022
"Remuneration Committee"	remuneration committee of the Board
"Reporting Period"	the year ended 31 December 2023
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Share(s)"	H share(s)
"Shareholder(s)"	holder(s) of the Shares
"Single Largest Shareholders Group"	a group of entities and individuals collectively holding approximately 27.33% of the equity interest in our Company, namely Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying
"Sinovation Ventures"	Sinovation Ventures (Beijing) Enterprise Management Limited (創新工場(北京)企業管理股份有限公司), a company incorporated under the laws of the PRC on 2 November 2010, and a member of our Single Largest Shareholders Group
"Nuosai Yucheng"	Nanjing Nuosai Yucheng Management Consulting Company Limited (南京諾賽育成管理諮詢有限公司, formerly known as Beijing Sinovation Ventures Yucheng Management Consulting Co., Ltd. (北京創新工場育成管理諮詢有限公司)), a company incorporated under the laws of the PRC on 13 July 2015, and a member of our Single Largest Shareholders Group
"Supervisor(s)"	the supervisor(s) of our Company
"Supervisory Committee"	supervisory committee of the Company
"%"	percent

Financial Summary

	Year ended 31 December				
	2019	2020	2021	2022	**2023**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	229,141	462,324	861,168	1,557,643	**1,751,045**
Gross profit	71,613	134,621	267,241	507,078	**588,485**
Operating loss	(221,956)	(286,801)	(622,841)	(392,291)	**(600,012)**
Loss for the year	(248,359)	(360,635)	(635,124)	(361,160)	**(570,272)**
Add:					
Share-based payment expenses	53,230	133,750	406,967	173,294	**290,271**
Finance cost of financial liabilities of redeemable shares	35,158	82,406	34,877	—	**—**
Listing expenses	—	—	51,500	26,457	**—**
Amortization of intangible assets arising from acquisition	—	—	—	14,292	**36,135**
Changes in fair value of financial assets/liabilities at fair value through profit or loss	—	—	—	8,716	**89,683**
Adjusted net loss (Unaudited)	(159,971)	(144,479)	(141,780)	(138,401)	**(154,183)**

	As at 31 December				
	2019	2020	2021	2022	**2023**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	854,514	1,395,806	2,264,907	3,268,447	**3,289,157**
Cash and cash equivalents	605,631	1,042,502	1,553,150	1,642,665	**1,344,615**
Total liabilities	1,017,680	1,909,833	469,599	909,472	**1,065,012**

Premium customer revenue value

	Year ended 31 December 2022	Year ended 31 December 2023
Number of premium customers	71	**81**
Premium customer revenue (RMB in thousands)	1,350,995	**1,427,718**
Premium customer dollar based repeating rate	82.1%	**41.6%**
Total number of customers	292	**397**
Total revenue (RMB in thousands)	1,557,643	**1,751,045**

Revenue-By Type of Products/Services

	Year ended 31 December			
	2022		**2023**	
	Amount RMB'000	%	**Amount RMB'000**	**%**
Sales of products and solutions	1,522,229	97.7	**1,632,358**	**93.2**
Services of data solutions	35,414	2.3	**118,687**	**6.8**
Total	1,557,643	100.0	**1,751,045**	**100.0**

Revenue-By Customer Type

	Year ended 31 December			
	2022		**2023**	
	Amount RMB'000	%	**Amount RMB'000**	**%**
System integrators	931,729	59.8	**961,992**	**54.9**
End-users	625,914	40.2	**789,053**	**45.1**
Total	1,557,643	100.0	**1,751,045**	**100.0**

Revenue-By Industry Verticals

	Year ended 31 December			
	2022		**2023**	
	Amount	%	**Amount**	**%**
	RMB'000		**RMB'000**	
Manufacturing	948,213	60.9	**1,176,425**	**67.2**
Automotive equipment	285,047	18.3	**393,097**	**22.5**
3C high-tech	106,561	6.8	**135,269**	**7.8**
OLED panel semiconductors manufacturing	133,609	8.6	**122,897**	**7.0**
Iron and steel metallurgy	129,078	8.3	**65,270**	**3.7**
Energy and Power	99,010	6.4	**70,440**	**4.0**
Engineering and Construction	83,632	5.4	**105,610**	**6.0**
Food & Beverage and New Material	—	—	**140,580**	**8.0**
Intelligent manufacturing practical training	—	—	**105,643**	**6.0**
Others	111,276	7.1	**37,619**	**2.2**
Financial services	382,335	24.5	**401,829**	**22.9**
Other industries	227,095	14.6	**172,791**	**9.9**
Total	1,557,643	100.0	**1,751,045**	**100.0**

Business Overview

Part I: Business Review

As China's largest "AI + manufacturing" solution provider and a National Specialized and New Small Giant Enterprise, AInnovation continuously explores cutting-edge artificial intelligence technologies to empower manufacturing, resolves practical issues in industrial scenarios, and helps corporate customers reduce costs and improve efficiency and quality, promoting digitalization transformation and high-quality development. In 2023, benefiting from breakthroughs in innovations of artificial intelligence technology and our continued deep cultivation in the manufacturing industry, AInnovation maintained positive growth, with multiple operational indicators showing positive development and the fundamental strength of the enterprise continuously solidifying. Specific performances are as follows:

During the Reporting Period, our revenue reached RMB1,751.0 million, up 12.4% year-on-year; and gross profit amounted to RMB588.5 million, up 16.1% year-on-year. Our gross profit margin was 33.6%, improved 1 percentage point as compared to the last period. During the year, we firmly implemented the "Focus" strategy: We focused more on our main manufacturing business, with revenue from the "AI + manufacturing" business segment reaching RMB1,176.4 million, a 24.1% increase year-on-year, and the proportion of overall revenue increaseing significantly to 67.2%, significantly improved year-on-year 6.3 percentage points; we further focused on high-quality business to promote continuous improvement in gross profit margin; we further concentrated on customer success, with number of customers increasing from 292 in 2022 to 397 in 2023, up 36.0% year-on-year; we further emphasized operational quality, realizing that the adjusted net loss rate continued to narrow from the previous fiscal year, and the net cash used in operating activities significantly improved from the previous fiscal year (a significant year-on-year improvement of 40.7%) as the revenue continued to increase, which ensures the steady and sustainable operation of the Company. Under the impetus of the "Focus" strategy and "Refined" management, we substantially optimized our business structure and improved our operation level, transforming toward high-quality development. In 2023, AInnovation was honored with the "Shandong Provincial High-Quality Development Award Enterprise" ("山東省級高質量發展獎勵企業") by the Department of Industry and Information Technology of Shandong Province.

In this year, we focused on empowering the AI manufacturing industry, continuously strengthening the ecosystem, and enhancing industry-research cooperation. We reached a strategic cooperation with the Cloud Computing & Big Data Research Institute of China Academy of Information and Communications Technology (CAICT), jointly promoting the formulation of AI technology standards and empowering the industrialisation and conducting the preparation of the first domestic industrial large language model (LLM) standard and technical evaluations. We also established a strategic cooperation with Advantech, enabling AInnovation industrial LLM to collaborate with Advantech's industrial cloud platform to empower the manufacturing industry. On the capital front, we explored regional industrial advantages and capital resources, jointly established merger and acquisition fund by combining our development strategies, efficiently inflicting impetus on deep integration and development between artificial intelligence and manufacturing and achieving preliminary result. At the same time, as the leading enterprise in the artificial intelligence industry chain in Qingdao, we are driving the development of the upstream and downstream sectors of the industry chain. We are also the center for digital transformation empowerment for the manufacturing and high-end equipment industry in Qingdao and the center for digitalization empowerment for equipment manufacturing and textile and apparel in Qingdao. We empower ecological development of industry by combining local superior industrial resources and our own technology features.

Effective corporate development strategies and the vast market in the manufacturing industry have further propelled our continuously rising status in the artificial intelligence market. According to IDC's "China Artificial Intelligence Software and Application Market Research Report," AInnovation has climbed to the third position in terms of the China's computer vision market share and consistently ranks fourth in terms of the machine learning platform market share. Meanwhile, we are actively expanding into the industrial software segment market, and in IDC's "Analysis of MES Market and Vendor Shares of Chinese manufacturing industry"(《IDC中國製造業MES市場分析及廠商份額》) report, we rank second in terms of the market share in the food, beverage, and tobacco segmentation field. "MOM (Manufacturing Operation Management) + AI Industrial Internet Platform" was selected as national special and professional industrial internet platform, which means we have tapped into the national first echelon of industrial internet platform.

We have always positioned ourselves with a pragmatic attitude and a forward-looking perspective in deploying artificial intelligence technology. As a national intellectual property advantage enterprise, we consistently adhere to national intellectual property standards. In 2023, we passed the Standard Certification Review of Intellectual Property Rights, marking our entry into the domestic advanced level in standardized management, creation, application, and protection of intellectual property. As of 31 December 2023, we have accumulated 1,286 patent applications, among which 80.9% are invention patents, with 524 patents granted including 305 invention patents. According to the statistics from IPRdaily, a global comprehensive intellectual property information service provider, AInnovation ranks 19th in the global industrial vision AI invention patent data applied and published in China over the past three years. Simultaneously, we actively expand into the AI2.0 era driven by the AIGC, intensifying research and development efforts in AIGC and large model-related technologies. According to IPRdaily's data, we ranked 35th in China's AI large model enterprise invention patent lists. In 2023, the "AInnoGC Industrial LLM" also received widespread recognition. In the CAICT's Compliance Verification of " Large-scale Pre-trained Model Technology and Application Evaluation Methods(《大規模預訓練模型技術和應用評估方法》)," AInnovation, with its " AInnoGC Industrial LLM," jointly received an outstanding level (4+) verification alongside other renowned domestic AI companies such as Huawei, Tencent, and iFlytek. At the end of 2023, MIT Technology Review released 15 advanced application cases of Chinese AI large models, focusing on the application and deployment capabilities of AI large models. AInnovation, with the " AInnoGC Industrial LLM," was listed together with other well-known domestic AI companies such as Huawei, Baidu, and Baichuan.

We firmly believe that the value of innovative technology lies in helping solve real-world problems. For example, the manufacturing industry has a significant need for product quality inspection and foreign object recognition. Through serving our clients, we discovered that visual recognition tasks often fail to meet expectations due to limited sample data and high annotation costs. To address this issue, in 2023, our research achievements in fine-grained visual recognition technology were recognized by top academic conferences worldwide. At NeurIPS 2023, we presented a new approach for fine-grained learning from coarse labels (PE-HCM), and our research paper was received by the conference. Additionally, we won first place both in the SnakeCLEF and PlantTraits tracks of the Fine-Grained Visual Categorisation (FGVC) competition at CVPR 2023. These research achievements enable the differentiation of extremely small differences in objects, eliminating the need for costly data annotation by domain experts. They have high application value in areas such as product recognition, defect detection, and security protection.

Establishment of Artificial Intelligence Technology Twin Towers

In 2023, the rapid development of large models, represented by ChatGPT, mainly manifested in the expansion of model scale, improvement of cross-modal interaction capabilities, and adaptability to more domains. With the growth of data volume and the enhancement of computational power, the scale of large models will continue to increase, enabling them to handle more complex tasks. Recently, OpenAI released Sora, a large multimodal model, which not only has the ability to generate and understand text but also can process various modalities of data such as images and videos, enabling machines to interact more naturally with humans. This cross-modal interaction method will make human-machine interaction more convenient.

The development of large models will make artificial intelligence more intelligent and comprehensive, leading to profound impacts across various industries and domains. In 2023, the Company remained committed to deepening its expertise in new AI technologies, increasing investment in the research and development of AI technology twin towers, strengthening its technical capabilities in both analytical AI and generative AI directions, actively deploying new products and solutions, and promoting business development to new heights through technological innovation.

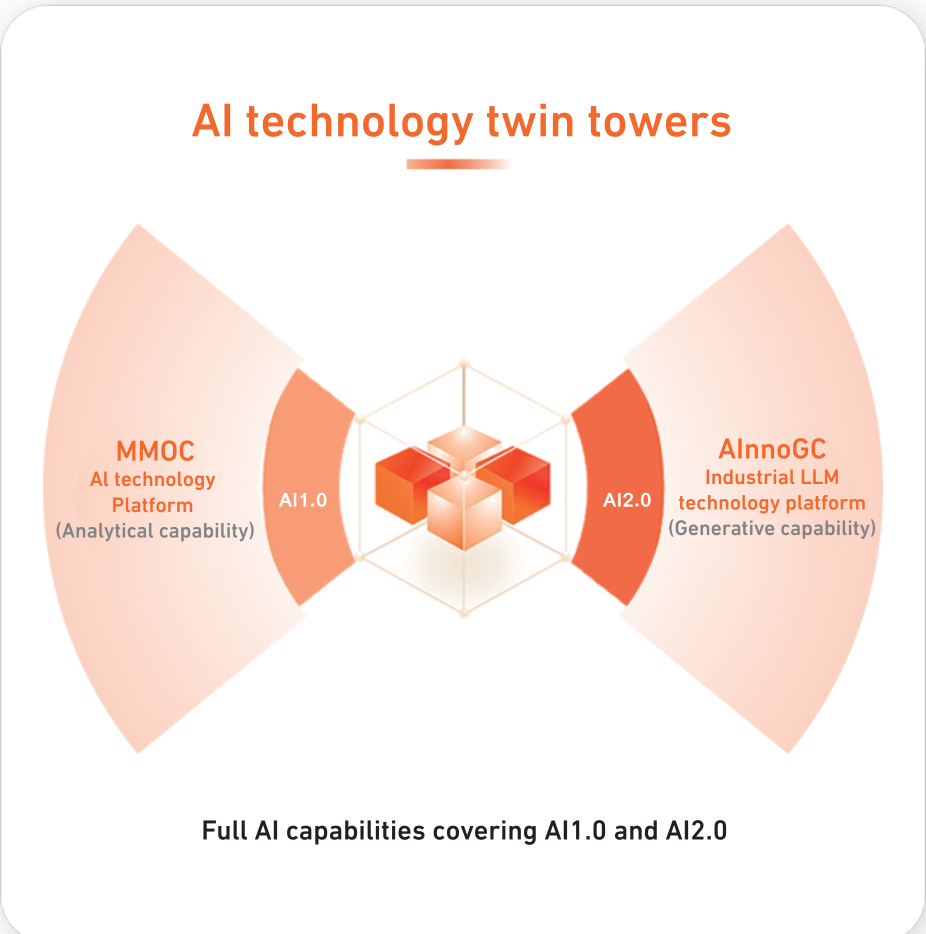

Figure (1) AInnovation "AI technology twin towers"

Business Overview

AInnovation MMOC artificial intelligence technology platform continues to focus on key scenario applications, maintaining a fast-paced development rhythm and continuously improving maturity, effectively supporting the scalable development of business.

- **ManuVision Intelligent Machine Vision Platform:** focusing on panel glass defect detection applications, it scales to support delivery of multiple customer projects. Significant improvements have been made in platform usability, operator richness, and deliverability.

- **MatrixVision Intelligent Edge Video Platform:** targeting industrial safety production applications, it addresses the needs of large-scale business delivery by establishing a standardized hardware testing laboratory, greatly enhancing platform stability, and expanding available computing power types as needed.

- **Orion Distributed Machine Learning Platform:** serving as a visual trainer, it achieves seamless integration with ManuVision and MatrixVision, enabling 100% online connectivity across the entire process. It becomes an essential component of visual intelligence solutions, effectively supporting the expansion of business with major clients of vision solutions.

- **Cloud Platform:** introducing MAAS (Model As A Service) service, enhancing model service efficiency. Meanwhile, as a public technology foundation, it leverages rich technological assets to efficiently support the rapid development and deployment of new directions such as AInnoGC.

The Company continues to increase investment in research and development of the "AInnoGC Industrial LLM" technology platform, enhancing capabilities in different aspects such as underlining algorithms, closed-loop model, platforms and implementation of application scenario. We are developing the AInnoGC 2.0, aiming to create an autonomous and controllable, industry-leading industrial LLM technology and product system.

- **ChatX series generative applications:** The key to implementing LLMs lies in their application. The Company has successively launched several native applications of LLM, empowering solution upgrades and innovations, and accelerating business implementation.

    - ChatBI-generative enterprise private domain data analysis: To address industrial data analysis, leveraging industrial LLM, optimizing Text-to-SQL and Text-to-Chart capabilities to create structured data analysis applications.

    - ChatDoc-generative enterprise private domain knowledge Q&A: To address equipment management and expertise information consultation, optimizing capabilities such as knowledge construction, Q&A, traceability, and recommendations, to launch a new generation of Q&A applications.

    - ChatRobot-generative industrial robots scheduling: The combination of industrial robots and industrial LLM presents a forthcoming deep revolution in underlying logic of industrial production. This combination will not only improve efficiency and quality of industrial production, but also promote process of industrial intelligence and automation, bringing great prospect for industrial development.

First of all, the high precision, high efficiency and flexibility of industrial robots enable its increasingly important role in production line. By virtue of analysis and studies conducted on mass data, industrial LLM is able to provide more precise operation instructions and optimization advices for industrial robots. This combination enables wider application of industrial robots and makes them better meet timely, complicated and fine production needs.

In addition, industrial LLM can also provide more intellectual decision support for industrial robots. Industrial LLM is able to forecast future production trend and needs through studies and analysis on historical data, thus providing optimization advices on mission scheduling, path planning and other aspects for industrial robots. This enables more intelligence of industrial robots' application and makes them automatically adapt to different production environments and task needs.

Based on above, the Company combines the task scheduling capability of industrial LLM, enhances machine language understanding and generation, and introduces ChatRobot, an interactive industrial robot scheduling application, which injects powerful intelligent control and decision capability in industrial robots.

- Conversational interaction: Automatic scheduling of implementation orders and automatic compiling codes, which procure robots to carry out tasks, are available through simple conversations and instructions, which effectively reduces requirements for manipulating robots.

- Complicated purposes understanding: Being able to analyze the real purpose of users and effectively understand complicated needs behind conversation based on multiple rounds of conversation according to questions provided by users.

- Long sequence of tasks scheduling: Automatically disassembling instructions comprising various steps to concrete tasks that can be directly implemented by robots, concretizing fuzzy instructions, thus increasing robots' implementation efficiency.

- Responsible decisions driving: Procuring relevant actions of robots through automatic decisions by LLM, and ensuring that robots can complete tasks instructed by users with high efficiency and precision and better adapt to environmental changes.

- ChatVision-generative enterprise private visual insight: For scenarios of safety production and efficient operation and maintenance based on machine vision, as well as the Multimodal LLM and the capability for external function call, leveraging the Company's existing visual algorithm assets and introducing a new generation of machine visual insight analysis application.

  - Natural Language Interaction: Utilizing LLMs to comprehend user intent, including understanding and mastering industry knowledge, high-density knowledge, and continuous-time intent.

  - Agent Intelligent Orchestration: Based on user intent, using the capabilities of industrial LLM task scheduling and external function call, fully utilizing existing visual technology assets to flexibly construct diverse visual detection solutions.

  - Multimodal Analysis: Based on industrial LLM with multimodal capabilities, conducting comprehensive analysis of pictures and videos, and enabling a comprehensive understanding and structured handling of visual data. For example, it is capable of locating and capturing the content of a specific scene in real time according to the instructions.

  - Results Insight: Performing insight analysis on visual analysis results, generating reports and graphs and other results, and triggering emails, alarms and other auxiliary services on demand.

- ChatCAD-generative aided industrial design: Industrial software is an indispensable pillar in promoting the high-quality development of modern intelligent manufacturing. It plays a key role in realizing industrial intelligent transformation and provides a solid foundation for innovation and upgrading in all industries. CAD (Computer-Aided Design), as the cornerstone software for industrial design, has always been at the forefront of the industrial chain. For a long time, China's CAD industrial design software market has been dominated by foreign developers. To end such dominance and keep pace with the widespread application of Text-to-Text, Text-to-Image, Text-to-Video (Sora) and other technologies in various industries, AInnovation has first integrated industrial LLM with industrial design and developed a generative computer aided industrial design software – ChatCAD, which is an autonomous and controllable Text-to-CAD application. Through simple conversational question answering, ChatCAD can quickly understand the designer's intentions and generate industrial design drawings that meet the requirements. This not only greatly improves the efficiency and quality of industrial design, but also promotes the widespread application of LLM technology in the upstream of industrial production, contributing to accelerating the localization of industrial software of China.

  - Natural Language Driven: ChatCAD allows users to describe design requirements through intuitive text input. The system can quickly analyze these requirements and automatically generate parametric industrial design model accordingly, significantly reducing reliance on complex operations of traditional design software.

- Understanding of Design Requirements: Based on the in-depth understanding of industrial field knowledge, the industrial LLM enables ChatCAD to accurately analyze and understand key design parameters in the industrial field, ensuring that the system can accurately identify the user's design intentions and perform corresponding design operations in accordance with industry specifications.

- Interactive Design Optimization: ChatCAD has an enhanced function of interactive modification, allowing users to make fine-tuning adjustments and iterative optimizations to the generated designs, and display the results in real time based on the adjustments before meeting the delivery standards.

- Compatible with Multiple Industry Formats: ChatCAD supports exporting design results in multiple industry common formats, ensuring ChatCAD's high compatibility with mainstream industrial design software and seamless connection with the existing industrial design ecosystem.

✧ **Industrial LLM:** Based on the AI technologies accumulated over the years, the Company developed an industrial LLM, namely AInno-15B, in the first half of 2023. To further enhance the massive knowledge management, complex logical reasoning, long process orchestration, and the generative capacity of more industrial models, we developed the industrial LLM, namely AInno-75B, in the second half of 2023. Our technical achievements have been recognized by well-known domestic and foreign evaluation institutions such as the CAICT.

✧ **LLM Service Engine:** The Company adheres to the platform strategy and practices the sharing and reuse of technical assets. In terms of LLM, the Company has built a complete LLM production pipeline covering data, modeling and evaluating and developed the LLM service engine, realizing phased development of technologies to modules, platforms and then products.

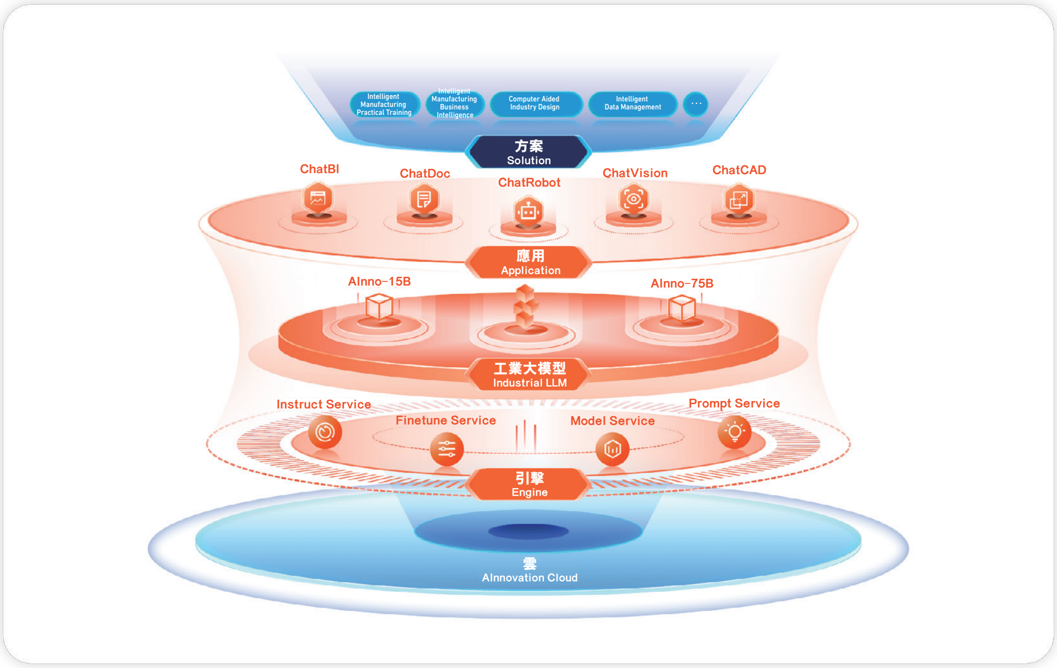

Figure (2) AInnoGC 2.0

Business Overview

Enrichment of AI products and solutions

In 2023, we were committed to strengthening the research and development of artificial intelligence-generated content (AIGC) technology and deepening its application in the industrial application field. We focused on the deep application of large models, including the automatic induction and generation of enhanced industrial knowledge, accurate industrial data analytics technology, and efficient industrial automation task scheduling system. Through these technological advancements, the intelligence level of our products and solutions has been significantly improved. In addition, relying on the further maturity of the MMOC artificial intelligence platform and the rapid iteration of AInnoGC, we have deeply embedded artificial intelligence technology into industry products and solutions, continuously improving its level of intelligence and promoting standardized replication on the customer side. In key market segments such as iron and steel metallurgy, panel semiconductor, automotive equipment, intelligent manufacturing practical training, Food & Beverage and New Material and finance, we continued to explore and deepen value, and promote the integration and expansion of artificial intelligence and diverse business scenarios, aiming to expand the application scenarios and industries of artificial intelligence, and promote innovation, development, transformation and upgrading. At the same time, we also created a matrix of specialized, refined and innovative products and solutions in key business areas to provide more comprehensive and systematic digital and intelligent transformation and upgrading solutions for customers in manufacturing industry, laying a solid foundation for high-quality business growth.

In the field of Food & Beverage and New Material, based on the MOM manufacturing operation management system solutions that have been developed in the Food & Beverage, high-end new materials, automotive equipment and other sub-industries for many years, we make every effort to create AI + MOM intelligent industrial software products and solutions from the following aspects. Firstly, we build a product matrix of "platform + product + industry suite", optimize the technical system and product positioning for industrial software technology assets accumulated in each sub-industry, and optimize the general software components and business models at the platform level, the general functions of various manufacturing operation management software at the product level, and the common functions of customer groups in the sub-sector of industry suite. Therefore, the degree of product standardization and the efficiency of launching on the customer side have been continuously improved; secondly, with MOM products as the core, the coverage of products and solutions is steadily expanded to the research and development, the operation, and the marketing, providing consistent and systematic overall solution for the general information transformation of customers; finally, relying on AInnoGC to comprehensively explore the application scene of large model technology in the whole process of production and operation management of manufacturing enterprises. Through the deep integration with the above software products, the Copilot in the field of industrial software is established, and the value of massive data of enterprises is deeply explored to help enterprises make accurate decisions, reduce costs and increase efficiency. At present, we have carried out a lot of pioneering work with industry top-tier clients in scenarios such as enterprise knowledge base construction, interactive data analytics and report generation and marketing content generation, and achieved commercialization.

In the field of iron and steel metallurgy, under the new wave of industrial greeny transformation, "iSmartONE intelligent molten iron transportation system" marks a milestone of industry and is a central pillar of promoting low-carbon process in the industry. The system brings out a world-ever seen battery electric vehicle transportation solution with the combination of AI and 5G technology and completes transformation of big-scale unmanned in steel company. It also represents the breakthrough application of new energy technology in traditional industries, blazes a new trail to battery electric vehicle transportation and offers a feasible and the latest example for steel industry of green low-carbon transformation. Following successful application to a renowned steel company in Southern China, we have hit a new record of the amount of commercial contract, more importantly, extended application scenario of steel park to industrial logistic sector through technology innovation. This proves our advanced technology with applicability, which also lays a solid foundation for our development in steel and related industrial logistic sector. These breakthroughs demonstrate that we have already moved on to the intelligent logistic sectors of steel companies, mines and the ports, which stands more opportunities, from single molten iron transportation solution, and build a practical case and experience for the strategic layout and implementation for the digital and intelligent development of industrial logistic. Our technologies' diversity and flexibility has showed off during the complete success of "1+N" industrial scenario and emphasized its application in ecosystem of steel industry providing a much more efficient, green and intelligent transportation solution.

In the field of panel semiconductors, we try our best to hand over a more comprehensive and high-efficiency glass panel quality inspection solution as well as multi-size silicon wafer intelligent quality inspection all-in-one products. During the year, high standardization and speedy delivery have been revealed in our solutions and products, which satisfied the diversify needs from user under various scenarios and ensured the quickly deployment and delivery of solutions and products. Under the help of pre-trained models and leading small sample learning and training algorithms provided by the MMOC platform, the glass panel quality inspection solution covers edge quality inspection and comprehensive quality inspection in LCD panel production, including key functions such as common panel defect detection and size measurement detection. The product types that we support expand from TV screen to mobile phone and pad screen, as well as the material types of LCD, OLED and AMOLED. In terms of industry coverage, we expanded our business and made achievement in the LCD panel thinning industry. This year, we have carried out large-scale deployment of glass panel quality inspection solutions based on ManuVision technology, in leading domestic glass panel manufacturers such as China Star Optoelectronics Technology, BOE, Tianma, Visionox, etc. In the LCD panel thinning scenario, we have also completed products delivery and application in many listed companies in China. At the same time, in the semiconductor industry, the size of silicon wafers covered by our silicon wafer intelligent inspection all-in-one products has increased from 8 inches to 12 inches, the detection range and types of detection defects have fully expanded, in order to ensure the successful application in various domestic silicon wafer production enterprises. Our progress and success displayed the relentless pursuit of product standardization and delivery efficiency as well as the leading position in improving quality inspection standards and efficiency of semiconductor industry. Through continuously technology innovation and opmization, we strive to provide customers with solutions and products of higher quality and more efficiency and drive the development of the whole industry.

Business Overview

In the field of automotive equipment, we have launched an intelligent automation solution in the form of industrial robots based on big data and artificial intelligence, which marks a significant innovation in the industry, and achieves comprehensive application from high-tech intelligent factory to new energy base, further to refined semiconductor digital processes and complex and diverse discrete automated production lines. The highly intelligent industrial robot equipped with advanced sensor that can connect to cloud industrial LLM and leverage big data analytics and machine learning algorithms. It not only improves production process and predicates equipment failure, but conduct independent learning and adaptation by real-time monitor and data analysis and automativly adjust production strategy. Our solutions also include the professional support and assistance for high-end equipment to exceed customer expectations for product quality, production efficiency, cost control, information transparency and response speed in all aspects. By fully integrating key links such as primary inspection, process quality monitoring and final product review, we have set up a whole-process management system that can grasp the product quality on the production line in real time, quickly identify and solve the problems and ensure the efficiency and accuracy of the production process. Further, we have implemented a cross-departmental data sharing strategy and ensured the whole-process traceability of product quality, to achieve significant improvement on quality control, cost savings, production efficiency and other aspects. Our solution has been successfully deployed in many leading domestic automotive equipment manufacturers, which has greatly improved the production efficiency and product quality of these enterprises, consolidated our leading position in the industry and highlighted our commitment to and achievements in promoting technological innovation and industry development.

In the field of intelligent manufacturing practical training, we have established an efficient and integrating innovation platform of "Robot + Industry" and committed to transit the newest achievement of robot technology into application. Such platform combined various functions such as application innovating, R&D technology, test incubating, industry-academia-research cooperation as well as talent cultivation, to construct a "5+N" industrial ecosystem consisting of dominated enterprise, public services platform, industrial fund, leading talent and intermediary. According to the plan for the development of robotics industry during the 14th Five-Year Plan period, we worked together with various top-tier universities and the State Robot Testing and Evaluation Center (國家機器人檢測與評定中心) to establish first-class robotics laboratory and evaluation center, which targeted on intelligent perception, digital design, precision driving and other key technology aspects. At industrial internet innovation studio relating to artificial intelligence and big data, we have developed an interactive learning question-and-answer platform of addressing in real time, realizing deep understanding and wide knowledge coverage, and a robot training course material system which can automatically generate individualization and rich content and putted them into effect, based on leading AIGC technologies and ChatDoc products such as "AInnoGC" with functions of complex natural language handling, advanced data analysing and deep reinforcement learning. These tools greatly improve the quality and efficiency of teaching, adjust the content of teaching materials in real time according to the feedback of students, promote personalized learning and skill developing and effectively facilitate the talent training of the robotics industry in Chongqing. It is also a respond to the national policies on new industrialization, improving the production quality and developing a quality workforce, aims to solve the problem of skilled talents shortage, provides a firmed talent support for the transformation and upgrading of the manufacturing industry and promotes the continuous innovation and development of the industry.

In the financial industry, with the rapid advancement of the construction of the data element market, data asset management has entered a stage of rapid development. On the basis of continuing to optimize and innovate the solutions of AInnovation intelligent computing center, we further enhance the product research and development work on data intelligence software such as data governance and control, data asset management, and data asset application development platform. We help financial industry customers to, in the face of multi-source and heterogeneous massive business data, clearly define data standards, improve data quality, classify and manage data assets hierarchically, and support various business departments to build intelligent application for different business needs based on unified data assets through rich data application development interfaces. At the same time, we actively explore the deep integration of LLM and generative AI technologies with digital intelligence software, and give full play to the mutual promotion between algorithms and data. For example, combining AInnoGC with data governance software helps data engineers generate the SQL code required for data acquisition and complete the basic data analytics work; in the data asset management software platform, based on the understanding of the enterprise data asset hierarchical management system and historical hierarchical data, the LLM automatically classifies and implements safety rating for massive data assets, greatly improving the efficiency and refinement of data asset management.

Part II: Future Outlook

Relying on China's strong efforts on promoting the high-quality development of the real economy, the new generation of information technology represented by AI has ushered in a period of rapid development. Industrial manufacturing constitutes an important part of the real economy. The 20th National Congress report proposes to promote a new type of industrialization and pick up our pace in building China into a manufacturing power as well as a digital country. In December 2023, eight authorities, including the Ministry of Industry and Information Technology (MIIT) jointly released *A Guideline on Accelerating the Transformation and Upgrading of Traditional Manufacturing Industries*, which calls for accelerating the empowerment of digital technology and comprehensively promoting intelligent manufacturing. In January 2024, seven authorities, including MIIT jointly issued *Implementation Opinions on Promoting the Innovative Development of Future Industries*, which focuses on promoting the development of future manufacturing, IT and other industries, and accurately identifying and cultivating high-potential future industries through AI, advanced computing and other technologies. The 2024 Government Work Report reproposes "AI +", and vigorously promotes the construction of new industrialization and accelerates the development of new productive forces.

On the application side, the demand from enterprises for AI technology has also reached an all-time high. According to the IDC's report, China's top 500 companies are expected to spend more than 30 percent of their core IT spending on AI by 2026, striving to achieve a double-digit growth in product innovation and flow improvement. According to *the Report on the Application and Development of Industrial Large Language Model (LLM) Technology* issued by China Academy of Information and Communications Technology (CAICT), AI and LLM will accelerate and empower the new industrialization, and the size of industrial AI market will rapidly grow at a CAGR of 46% from 2022 to 2032. In 2032, the industrial AI market size will be valued at USD89.5 billion. The advent of AI LLM will greatly reduce the difficulty arising from technology application, and significantly improve the AI generalization capability, thus promoting the development of innovative applications and solutions. We believe that with the implementation of a gradually orderly LLM market, more intelligent and digital innovation scenarios will be created in industrial manufacturing driven by generative AI, bursting out a strong vitality.

Business Overview

In the AI1.0 era, relying on the MMOC artificial intelligence technology platform, we have accumulated rich experience in serving the manufacturing industry with AI technology. Going forward, in the AI2.0 era, we will continue to strengthen the MMOC platform and make greater efforts to develop AInnoGC industrial LLM technology platform, creating more application scenarios in industrial manufacturing through AI technology. Our business structure will also be further optimized and adjusted with the technology upgrading and based on the change of external demand, and further focus on and construct "industrial software, digital and intelligent software, industrial logistics, intelligent equipment, industrial sustainability" based on its existing segments, promoting the deep integration of AI and industrial manufacturing. As set out in the 2024 Government Work Report, China will provide stronger guidance and support on quality and standards to create more Chinese brands with global reach. Currently, "made by China" enters into international market with an unprecedented expansion pace and scale. Setting up overseas offices by participants in China's manufacturing industry also becomes an inevitable trend of China's economic development. In the future, we will respond to the business need of customer and market volatility and support China's manufacturing industry to establish overseas offices. "1+N" expansion and "1+N" replication will be explored in the market abroad based on existing technology platform and solutions, to give assistance on expanding the capacity of upgrading manufacturing industry to cover the overseas market and become new driving force of enterprise growth.

Strengthening AI technology twin towers

With the rapid development of LLM such as ChatGPT, Sora and Claude, AI technology has entered a new stage of development. LLM is attributed to stronger multimodal learning and understanding ability, self-learning and adaptability, logical reasoning and problem-solving ability and the ability to simulate the physical world, suggesting that the AGI era is quickly approaching, further exerting a profound impact on several areas. In particular, for the industrial sector, we will see optimized production procedure, increased production efficiency, lower cost and advanced automation; for the financial sector, LLM will assist in conducting complex financial analysis, risk prediction and investment decisions, etc., accelerating the development and application of AI technology.

Going forward, the Company will be actively open to major opportunities brought by new technological changes, continue to strengthen the development and operation of AI "technology twin towers", actively deploy next-generation applications and solutions for key industrial areas and key scenarios, and gradually build a new pattern of intelligent products in the AI2.0 stage.

In the direction of AInnoGC, we will continue to improve the full-stack maturity of AInnoGC, strive to make our technology take the lead and promote product innovation and implementation.

- **Improving the ChatX series of generative applications:** enhancing the business application ability, and continuing to quickly explore and make breakthroughs in new applications.

  - ChatBI-generative enterprise private domain data analysis: improving the coverage of LLM empowering data analysis as well as the analysis efficiency.

  - ChatDoc-generative enterprise private domain knowledge Q&A: enhancing the scale and content diversity of supporting documents, and optimizing the effect of knowledge Q&A, recommendation and traceability.

  - ChatRobot-generative industrial robots scheduling: continuing to improve man-machine interactive experience, adding brain-computer control interfaces and optimizing task scheduling capabilities, especially cooperative scheduling among various AGVs, so as to promote deep combination between industrial robots and industrial LLM. Taking industrial LLM as sprit and industrial robots as body and with continuous optimization and perfection of industrial LLM as well as constant expansion of application scenarios of ChatRobot, industry regions will welcome a more efficient, intellectual and sustainable production way. Besides, combination of industrial LLM and industrial robots is expected to promote intellectual and flexible development of manufacturing industry. With continuous progress of technologies, industrial robots in future will obtain stronger self-adaptation and study capabilities through industrial LLM, and be able to conduct self-adjustment and optimization according to different production needs and environmental changes, as a result of which production lines of manufacturing industry will become more flexible and be able to adapt to various complicated and volatile production scenarios. There is a vast development prospect for combination of industrial LLM and industrial robots. We believe that, with continuous progress of embodied intelligent technology of large models and continuous expansion of application scenarios, industrial manufacture in future will become more intelligent, high-efficient and sustainable.

  - ChatVision-generative enterprise private visual insight: based on LLM multimodal technology, continually strengthening the functions of visual analysis and visual insight to create a new generation of natural language interactive picture/video analysis applications.

  - ChatCAD-generative aided industrial design: enhancing the LLM-generative industrial design capability as well as the output quality of mechanical design and electrical design, promoting the LLM application into the upstream of industrial production, helping reduce cost and increase efficiency in industrial design, and extending the life cycle of industrial design results.

✧ **Optimizing industrial LLM:** embracing the technological transformation of LLM, and further strengthening the capabilities of industrial LLM multimodality, Agent and AIGD (AI Generate Design) based on the actual needs arising from multiple fields and multiple scenarios, increasing technological innovation and accelerating the transformation of technological achievements.

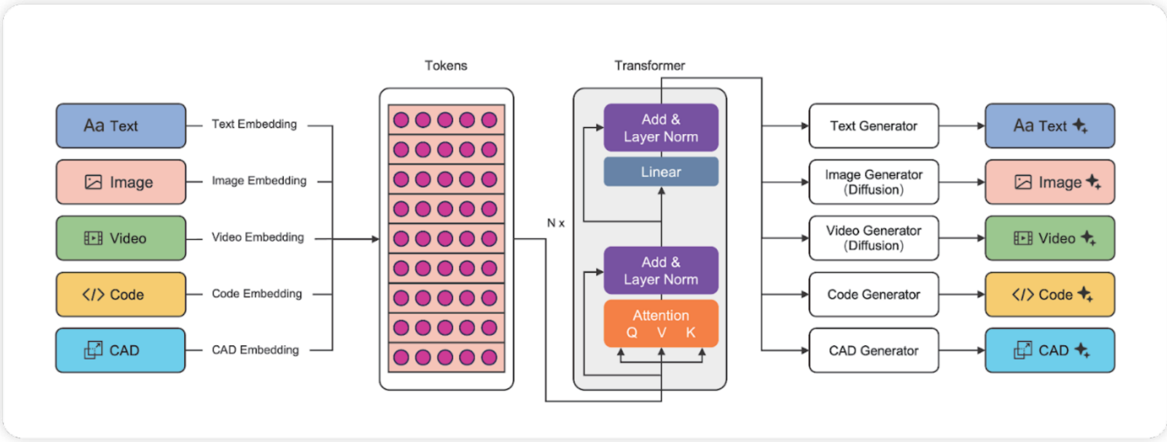

Figure (3) AInnovation multimodal industrial LLM

✧ **Strengthening the LLM service engine:** continually implementing the update and reuse of LLM new technology middleware and tool chain, perfecting the built-in RAG and Agent capability engine, continuing to implement the platform engineering strategy, and empowering application development to reduce costs and increase efficiency.

In the direction of MMOC, we will give full play to the existing accumulated technology experience of visual intelligence, continue to improve product maturity, and support high-quality business development.

✧ **ManuVision/MatrixVision/Orion:** continually improving the all-process function of visual intelligence and actively promoting product innovation, integrating industrial LLM capabilities and creating differentiation and leadership.

✧ **Cloud:** continually consolidating and unifying the base, enhancing disaster preparedness and scalability, improving service stability, and rapidly developing and deploying ManuVision, MatrixVision, Orion, AInnoGC and various solutions.

Optimize AI products and solutions

In 2024, we are committed to further putting artificial intelligence technology to use, especially LLM technology, in order to achieve deep technological integration of products and solutions across all sub-sectors. We strive to expand the application range of intelligent products and solutions, and build a product matrix system to provide comprehensive product functions, while focusing on facilitating the integration and continuous accumulation of our customers' business data. This will accelerate the practical application of artificial intelligence technology and give full support for intelligent decision-making of enterprises. The Chat X serial products with creative and new features will be also introduced to strengthen our products and solutions, which includes exploring and analyzing large dataset by natural language understanding and Text-to-SQL technology, so as to provide profound insights and predictions for enhancing decision-making support capability. In addition, instant and accurate information in knowledge question and answer field we provided by virtue of the abilities of answering questions and summarizing model will significantly improve users' experience. The Text-to-CAD multimodality ability of large model technology can automatically make or optimize design drawings, which assists us to get a lot more design efficiency and innovation, speed up product development cycles and create competitive advantages. The all-round strategy of technology deepening and product innovation aims to promote the widespread application of AI technology in various industries, aided enterprises to realize the transformation and upgrading of digitization and intelligence and ensure that enterprises stay ahead in the fierce market competition.

In the field of Food & Beverage and New Material, we will adhere to the industrial software productization strategy with AI+MOM. In advantaged sub-sectors such as Food & Beverage, high-end new material and automobile equipment, a core MOM product portfolio, which is smart, platformization and verticalization, will be developed with standardized product matrix as the core as well as industrial internet solutions of vertical market as a pivot, to form new productive forces through cutting-edge technologies and advance the national strategy of new industrialization and digital economy. For specific, we uphold the product R&D strategy of "Platform+ Product+ Industrial package", keep improving standardized level of products, and boost the high-quality growth of business by key products. At the same time, during the scenario exploration and commercial implement test of industrial software carried by large models at an earlier stage, we will conentrated on high-value scenarios and based on which to create industrial software, Copilot, that is a key product with large model capabilities embedded. For example, the construction capability of knowledge base of large models has been used to incorporate the knowledge base related to equipment operation and maintenance of the equipment management software, so that the software can immediately provide the operational and maintainance intelligent assistance to the user. The construction capability of knowledge base can also quickly copy and paste in other systems within the enterprise such as R&D management system, internal operating system and external marketing system, realizing knowledge base construction in all aspects of the enterprise. We will carry out in-depth cooperation with a number of lighthouse customers and pursue the "1+N/1xN" strategy, achieving the mature large-model embedded products successfully applied to such lighthouse customers and the replication of it to the customer from other industries, while exploring more large-model empowering scenarios.

Business Overview

In the field of iron and steel metallurgy, we will consolidate our unmanned market position of intelligent iron and steel interface and molten iron transportation. Our steel logistics of the whole plant will be deepened around the four major aspects - "raw materials entering the plant, production and delivery, in-plant transportation and ex-plant cost", covering the logistics objects from "liquid" to "solid". Developing intelligence of unloading raw material at terminals, automobile transportation within the plant, molten iron transportation and warehousing and delivery, laid a plan for the intelligentization of industrial logistics.

In the field of panel semiconductor and automotive equipment, for efficient and intelligent collaboration of cloud, edge and end, we will continue to promote the software and hardware integrated intelligent equipment driven by machine vision technology in all sub-sectors, and accelerate the seamless integration of all kinds of intelligent equipment and industrial software systems. For instance, as far as equipment implemented by various customers in the past, we have connected the test result of intelligent quality inspection equipment with the enterprise quality management system as well as equipment management system, achieving end-to-end quality management as well as precise and intelligent operation and maintenance of equipment, respectively. A much native support will be provided for data connection in products and solutions level, to further promote the replication of the above best practices on the customer side. In the meantime, we join hands with industrial top customers, actively seeking innovative landing scenario of large models technology in intelligent equipment. For example, the PLC code generation technology that has been applied in intellectual manufacturing training, the task organization and execution capability of industrial robots driven by AI-bot engine and multimodality model as well as the CAD drawing capability driven by large model, etc., will persist to enhance the intelligence level of various types of equipment and the capability of independently completing repetitive tasks, and improve the overall efficiency of the production line.

In the field of intellectual manufacturing training, focusing on industrial needs, we will design and develop more digital training courses closely aligned with the advancement of the manufacturing industry, and supportive training software modules and practical operating platforms. More generative AI technologies incubated by AInnoGC will be actively stepped up to embed in the platform of intellectual manufacturing training software, and promoted to all practical training centres. Through generative AI technology, we will incessantly improve the efficiency of the operation of the practical training centres, the teaching and research of teachers and the practical training of students. In addition, using the practical training centre as an experimental base for various types of generative AI technology implemented in the actual industrial production process, can not only test and enhance the accuracy and stability of the implementation of generative AI technology in the production line, but increase the understanding of generative AI technology for the manufacturing industry employees in future. It also accelerates the implementation of generative AI technology in the manufacturing industry and promotes the sustainable development of the industry.

In the financial industry, data that pave the way for the current economic environment, has become the fifth core factor of production with other four of land, labor, capital and technology, which is attached to great importance for the financial industry. As the country vigorously puts efforts into the construction of multi-tier capital market and financial institutions accelerate digital transformation on wealth management business, demands for artificial intelligence technology and data solutions increased day by day. We dedicate ourselves to giving a full use of our deep knowledge of artificial intelligence technology, in particular, leverage deep integration between AInnoGC and digital and intelligence software to boost innovative products and service. Our goal is by integrate automatic code generation, data asset grading, user profiling and other functions of products, collaborate advantages between data governance and asset management software, and industrial package customization, to raise the performance of financial industry clients in key business scenarios with respect to precision marketing, compliance risk control, business and financial management, regulatory submissions and others across the board, help them thereby activate and maximize the potential value of their data assets. We stick to the principles of "products with distinguishing features", "business and scenarios highly matching" and "excellent execution", continuously increase our R&D investment in AI solutions and data product, to steadily expand our industry coverage from banking and insurance to a broader asset management business such as securities, funds, futures, leases, trusts, further to manufacturing industry that data management is in relatively early stage but growing fast. In this way, we are strengthening our FinTech infrastructure, and also providing ongoing support and empowerment to our customers in the governance, control and digital transformation of their data assets in response to increasingly complex market demands and regulatory environments.

Management Discussion and Analysis

OVERVIEW

In the past six years since the establishment of AInnovation, we have been continuously committed to promoting the implementation of cutting-edge artificial intelligence technology in the real industry represented by the manufacturing industry, assisting in new industrialization and high-quality development, and promoting the integration and development of the digital economy and the real economy. As the market leader of "AI + Manufacturing" solutions in China, we adhered to the "focus" strategy to develop specialized and new backbone business and are pursuing long-term sustainable organic growth by strengthening our business in sub-sectors of industry (iron and steel metallurgy, panel and semiconductors, 3C high-tech, engineering and construction, automotive equipment, energy and power, Food & Beverage and New Material, and intelligent manufacturing training) and financial services industry. Thanks to the right corporate development strategy, deep technical product accumulation and profound insight into the industry scenario, we have achieved excellent results in terms of quantity and quality in the fiscal year 2023.

REVENUE

Our revenue increased by 12.4% from RMB1,557.6 million in the fiscal year ended 31 December 2022 to RMB1,751.0 million in the fiscal year ended 31 December 2023. Such increase was primarily due to the overall scale expansion and sustaining healthy development of the Company, which were mainly presented by (1) increase in revenue of manufacturing industry and financial services industry; and (2) increase in total number of customers and numbers of premium customers.

Manufacturing industry. Revenue from manufacturing industry increased by 24.1% from RMB948.2 million in the fiscal year ended 31 December 2022 to RMB1,176.4 million in the fiscal year ended 31 December 2023, accounting for 67.2% of total revenue.

Financial services industry. Revenue from financial services industry increased by 5.1% from RMB382.3 million in the fiscal year ended 31 December 2022 to RMB401.8 million in the fiscal year ended 31 December 2023, accounting for 22.9% of total revenue.

Our total number of customers increased from 292 in the fiscal year ended 31 December 2022 to 397 in the fiscal year ended 31 December 2023.

We define the customer with revenue contribution of RMB4.5 million or more in a fiscal year as a premium customer. The number of premium customers increased from 71 in the fiscal year ended 31 December 2022 to 81 in the fiscal year ended 31 December 2023. The total revenue contributed by the premium customers was RMB1,351.0 million and RMB1,427.7 million in 2022 and 2023 respectively.

COST OF SALES

Our cost of sales increased by 10.7% from RMB1,050.5 million in the fiscal year ended 31 December 2022 to RMB1,162.6 million in the fiscal year ended 31 December 2023. Such increase was primarily due to the cost growth from steady revenue growth.

Manufacturing industry. Cost of sales from manufacturing industry increased by 21.2% from RMB594.8 million in the fiscal year ended 31 December 2022 to RMB720.7 million in the fiscal year ended 31 December 2023, primarily caused by continuously focusing on the manufacturing industry and increasing the number of customers in the manufacturing industry.

Financial services industry. Cost of sales from financial services industry increased by 6.0% from RMB281.2 million in the fiscal year ended 31 December 2022 to RMB298.1 million in the fiscal year ended 31 December 2023, primarily caused by business expansion in financial services industry.

GROSS PROFIT AND GROSS MARGIN

As a result of foregoing, our overall gross profit increased by 16.1% from RMB507.1 million in the fiscal year ended 31 December 2022 to RMB588.5 million in the fiscal year ended 31 December 2023. In 2022 and 2023, our overall gross margin was 32.6% and 33.6% respectively, primarily due to (1) higher delivery efficiency and our optimization control on cost; (2) continuous optimization of business structure; (3) continous improvement in economies of scales; (4) increase in pricing rights; and (5) more standardized products and solutions and more technical assets accumulated in our platforms.

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses increased by 31.8% from RMB162.7 million in the fiscal year ended 31 December 2022 to RMB214.5 million in the fiscal year ended 31 December 2023, primarily due to (1) strengthening of commercialization capabilities, continuous expansion of customer acquisition channels, and increased marketing efforts; (2) amortization of intangible asset arising from acquisition; and (3) increase in share-based payment expenses.

Selling and distribution expenses as a percentage of revenue increased from 10.4% in the fiscal year ended 31 December 2022 to 12.3% in the fiscal year ended 31 December 2023. Selling and distribution expenses (excluding share-based payments and amortization of intangible assets arising from acquisition) as a percentage of revenue was 6.7% in the fiscal year ended 31 December 2023, a decrease of 0.4% compared to 7.1% in the fiscal year ended 31 December 2022, primarily due to (1) constant and steady growth of our revenues; and (2) reducing and optimizing corporate operation costs and conducting effective control on selling and distribution expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses increased by 23.4% from RMB329.5 million in the fiscal year ended 31 December 2022 to RMB406.6 million in the fiscal year ended 31 December 2023, primarily due to an increase in share-based payment expenses.

General and administrative expenses as a percentage of revenue increased from 21.2% in the fiscal year ended 31 December 2022 to 23.2% in the fiscal year ended 31 December 2023. General and administrative expenses (excluding share-based payments and listing expenses) as a percentage of revenue was 11.5% in the fiscal year ended 31 December 2023, a decrease of 0.7% from 12.2% in the fiscal year ended 31 December 2022, primarily due to (1) constant and steady growth of our revenues; and (2) reducing and optimizing corporate operation costs and conducting effective control on general and administrative expenses.

RESEARCH AND DEVELOPMENT EXPENSES

Our research and development expenses increased by 8.0% from RMB416.3 million in the fiscal year ended 31 December 2022 to RMB449.8 million in the fiscal year ended 31 December 2023, primarily due to an increase in overall research and development investments brought by business expansion.

Research and development expenses as a percentage of revenue decreased from 26.7% in the fiscal year ended 31 December 2022 to 25.7% in the fiscal year ended 31 December 2023. Research and development expenses (excluding share-based payments and amortization of intangible assets arising from acquisition) as a percentage of revenue was 24.3% in the fiscal year ended 31 December 2023, a decrease of 1.0% from 25.3% in the fiscal year ended 31 December 2022, primarily due to (1) constant and steady growth of our revenues; and (2) lower costs and boosted efficiency appropriately in line with market environment.

NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Our net impairment loss on financial assets in the fiscal year ended 31 December 2023 was RMB86.8 million, compared to a net impairment loss of RMB37.0 million in the fiscal year ended 31 December 2022, primarily due to our prudent policies on the impairment provision of trade and other receivables during the Reporting Period.

OTHER INCOME

Other income consists primarily of government grants, which mainly relate to financial assistance from local governments in the PRC.

Our other income increased from RMB56.0 million in the fiscal year ended 31 December 2022 to RMB57.4 million in the fiscal year ended 31 December 2023, primarily due to more government grants we obtained.

OTHER LOSSES, NET

Our other losses, net primarily consist of: (1) foreign exchange losses/gains; and (2) changes in the fair value of financial assets and liabilities at fair value through profit or loss.

In the fiscal year ended 31 December 2023, we had a net other loss of RMB87.8 million compared to RMB9.2 million in the fiscal year ended 31 December 2022, primarily due to the changes in the fair value of financial assets and liabilities at fair value through profit or loss.

OPERATING LOSS

As a result of the foregoing, our operating loss increased by 52.9% from RMB392.3 million in the fiscal year ended 31 December 2022 to RMB600.0 million in the fiscal year ended 31 December 2023, primarily due to an increase in share-based payment expenses.

FINANCE INCOME

Our financial income decreased from RMB38.7 million in the fiscal year ended 31 December 2022 to RMB29.1 million in the fiscal year ended 31 December 2023, primarily due to a decrease in interest income from bank deposits.

FINANCE COSTS

Our finance costs are primarily comprised of (1) interest expenses on lease liabilities; (2) interest expenses on bank borrowings; and (3) interest expenses on convertible bond.

Our finance costs increased from RMB8.1 million in the fiscal year ended 31 December 2022 to RMB8.6 million in the fiscal year ended 31 December 2023, primarily due to an increase in interest expenses on bank borrowings.

LOSS FOR THE YEAR

As a result of the foregoing, our loss for the year increased by 57.9% from a loss of RMB361.2 million in the fiscal year ended 31 December 2022 to RMB570.3 million in the fiscal year ended 31 December 2023, primarily due to an increase in share-based payment expenses.

NON-IFRS MEASURES

Adjusted Net Loss

We define adjusted net loss as the net loss for the year adjusted by adding back share-based payment expenses, listing expenses, amortization of intangible assets arising from acquisition and changes in fair value of financial assets/liabilities at fair value through profit or loss. The changes in fair value of financial assets/liabilities at fair value through profit or loss mainly include fair value changes of fund investments, other financial investments, contingent considerations and convertible bond.

The following table reconciles our adjusted net loss for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is net loss for the years.

	Year ended 31 December	
	2022	**2023**
	RMB'000	**RMB'000**
Reconciliation of net loss to adjusted net loss:		
Loss for the year	(361,160)	**(570,272)**
Add:		
Share-based payment expenses	173,294	**290,271**
Listing expenses	26,457	**—**
Amortization of intangible assets arising from acquisition	14,292	**36,135**
Changes in fair value of financial assets/liabilities at fair value through profit or loss	8,716	**89,683**
Adjusted net loss (Unaudited)	(138,401)	**(154,183)**

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

As at 31 December 2023, cash and cash equivalents of the Group was approximately RMB1,344.6 million, compared to approximately RMB1,642.7 million as at 31 December 2022. The change was mainly from the cash inflow from placing new shares and cash outflow from investing and operating activities. Most of the cash and cash equivalents of the Group were denominated in RMB.

Gearing Ratio

The Group monitors capital on basis of the gearing ratio, which is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including related party borrowing), convertible bond and lease liabilities less cash and cash equivalents. As of 31 December 2023, the Group had a net cash position and the gearing ratio was not applicable.

MATERIAL ACQUISITIONS AND DISPOSALS

Transaction in relation to the Acquisition of 51% Equity Interest in Shanghai Compass Information Technology Co., Ltd. ("Shanghai Compass")

On 16 May 2023, RewinCloud (Chongqing) Technology Co., Ltd. ("**RewinCloud**", a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with two independent third parties, pursuant to which RewinCloud has conditionally acquired a total of 51% of the equity interests in Shanghai Compass at a total consideration of RMB229.5 million ("**Shanghai Compass Acquisition**"). Immediately after the completion of the Shanghai Compass Acquisition, Shanghai Compass has become an indirect subsidiary of the Company. Shanghai Compass is a specialized company that provides products and services related to data governance and data middle platform nationwide. As none of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the Shanghai Compass Acquisition exceeds 5%, the Shanghai Compass Acquisition does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

Save as disclosed above, for the year ended 31 December 2023, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Disclosure Made pursuant to Rule 14.36B of the Listing Rules

References are made to the announcement of the Company dated 20 May 2022 in relation to the acquisition of 51% equity interest in two target companies, and to the sections headed "Material Acquisitions and Disposals" of the annual report for the year ended 31 December 2022 issued by the Company on 19 April 2023 and the interim report for the six months ended 30 June 2023 issued by the Company on 22 September 2023.

The Company entered into the Share Transfer Agreement ("**Share Transfer Agreement I**") with three Vendors ("**Vendors I**") on 20 May 2022. Pursuant to the Share Transfer Agreement I, the Company has agreed to conditionally purchase, and Vendors I have agreed to conditionally sell, an aggregate of 51% equity interest in AInnovation EHigher (Shanghai) Intelligence Technology Co., Ltd. (浩亞奇智(上海)智能科技股份有限公司) ("**Target Company I**") at the total consideration of RMB153.0 million. The Company entered into the Share Transfer Agreement ("**Share Transfer Agreement II**") with three Vendors ("**Vendors II**") on 20 May 2022. Pursuant to the Share Transfer Agreement II, the Company has agreed to conditionally purchase, and Vendors II have agreed to conditionally sell, an aggregate of 51% equity interest in Qingdao Aolipu Qizhi Intelligent Industrial Technology Co., Ltd. (青島奧利普奇智智能工業技術有限公司) ("**Target Company II**") at the total consideration of RMB122.4 million.

1. Performance commitment of Target Company I

As for Target Company I, all parties agreed that the years of 2022, 2023 and 2024 will be the performance commitment period (the "**Performance Commitment Period**") of Vendors I, during which, except for the matters that shall be considered and approved by the board of directors, the board of supervisors and the shareholders' meeting of Target Company I as required by the laws and rules, the articles of association of Target Company I and the transaction documents or the matters that shall be agreed in writing by the Company before being implemented, the major operation and management matters of Target Company I shall be the sole responsibility of Chen Hong, an existing shareholder of Target Company I. Chen Hong undertakes that the following performance indicators will be satisfied:

Item	**Performance Commitment Indicator**		
Fiscal Year	**2022[1]**	**2023**	**2024**
Revenue (RMB0'000)	21,818	33,000	44,000
Sales gross margin[2]	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Financial gross margin[3]	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Net profit (excluding extraordinary gains and losses)[4] (RMB0'000)	660	1,320	1,760

Notes:

1. The performance indicators for 2022 refer to the performance indicators consolidated after the Company acquired Target Company I only.

2. Sales gross margin = (turnover – external procurement costs)/revenue.

3. Financial gross margin = (turnover – costs of revenue)/revenue.

4. Net profit (excluding extraordinary gains and losses) refers to the net profit after deducting the extraordinary gains and losses.

During the Performance Commitment Period, the Company shall calculate the Share Transfer Payment (each amount being referred to as "**Adjusted Share Transfer Price**") to be paid in the year according to the fulfillment of the Performance Commitment Indicator, and pay it to each of Vendors I separately according to the following formula: Adjusted Share Transfer Payment = Share Transfer Payment before Adjustment × The performance achievement rate after taking into account the collection of payments.

According to the Company's announcement dated 20 May 2022, 30 June of each year or the date on which the Vendors I make payment application (whichever is earlier) shall be the closing date for collection of payments for the previous year (the "**Collection Date**"). The Company shall calculate the performance achievement rate after taking into account the collection of payments based on the actual collection status before the Collection Date. For details of realisation situation of performance indicators of Target Company I for 2022, please refer to the Company's interim report of 2023. As of the Latest Practicable Date, the Company has not yet been able to calculate the performance achievement rate of year 2023 after taking into account the collection of payments as the agreed Collection Date of year 2023 is yet pending. Accordingly, the performance commitment of Target Company I for the year ended 31 December 2023 is still in progress and the Company will closely monitor the completion of the said performance commitment.

2. Performance commitment of Target Company II

As for Target Company II, all parties agreed that the years of 2022, 2023 and 2024 will be the performance commitment period (the "**Performance Commitment Period**") of Vendors II, during which, except for the matters that shall be considered and approved by the shareholders' meeting, the board of directors, the board of supervisors and supervisors of Target Company II as required by the laws and rules, the articles of association of Target Company II and the transaction documents or the matters that shall be agreed in writing by the Company before being implemented, the major operation and management matters of Target Company II shall be the sole responsibility of Li Weiguo, an existing shareholder of Target Company II. Li Weiguo undertakes that the following performance indicators will be satisfied:

Item	**Performance Commitment Indicator**		
Fiscal Year	**2022[1]**	**2023**	**2024**
Revenue (RMB0'000)	8,000	15,000	22,500
Sales gross margin[2]	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Financial gross margin[3]	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Net profit (excluding extraordinary gains and losses)[4] (RMB0'000)	600	1,100	2,300

Notes:

1. The performance indicators for 2022 refer to the performance indicators consolidated after the Company acquired Target Company II only.
2. Sales gross margin = (turnover – external procurement costs)/revenue.
3. Financial gross margin = (turnover – costs of revenue)/revenue.
4. Net profit (excluding extraordinary gains and losses) refers to the net profit after deducting the extraordinary gains and losses.

During the Performance Commitment Period, the Company shall calculate the Share Transfer Payment (each amount being referred to as "**Adjusted Share Transfer Price**") to be paid in the year according to the fulfillment of the Performance Commitment Indicator, and pay it to each of Vendors II separately according to the following formula: Adjusted Share Transfer Payment = Share Transfer Payment before Adjustment × The performance achievement rate after taking into account the collection of payments.

According to the Company's announcement dated 20 May 2022, 30 June of each year or the date on which the Vendors II make payment application (whichever is earlier) shall be the closing date for collection of payments for the previous year (the "**Collection Date**"). The Company shall calculate the performance achievement rate after taking into account the collection of payments based on the actual collection status before the Collection Date. For details of realisation situation of performance indicators of Target Company II for 2022, please refer to the Company's interim report of 2023. As of the Latest Practicable Date, the Company has not yet been able to calculate the performance achievement rate of year 2023 after taking into account the collection of payments as the agreed Collection Date of year 2023 is yet pending. Accordingly, the performance commitment of Target Company II for the year ended 31 December 2023 is still in progress and the Company will closely monitor the completion of the said performance commitment.

MATERIAL INVESTMENTS HELD/FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

As of 31 December 2023, save as disclosed in this annual report, we did not have material investments or future plans for other material investments or acquisition of capital assets.

FOREIGN EXCHANGE EXPOSURE

During the fiscal year ended 31 December 2023, the Group mainly operated in the PRC with most of the transactions settled in RMB. The functional currency of our Company and the subsidiaries is RMB. As of 31 December 2023, our balance of the cash and cash equivalents was mainly denominated in RMB. The Group manages its foreign exchange risk by closely monitoring the movement of the exchange rates and will consider hedging significant foreign currency exposure if necessary. As of 31 December 2023, our business is not exposed to any significant foreign exchange risk.

PLEDGE OF ASSETS

As at 31 December 2023, the Group had no material pledge of assets.

BORROWINGS

As at 31 December 2023, borrowings of the Group were RMB76.7 million (as at 31 December 2022: RMB57.6 million), mainly include short-term borrowings of acquired subsidiaries.

CONTINGENT LIABILITIES

As at 31 December 2023, we did not have any material contingent liabilities.

SUBSEQUENT EVENT

There was no significant event subsequent to the end of the Reporting Period and up to the Latest Practicable Date.

Report of the Directors

The Board of Directors hereby present to the Shareholders the annual report of the Group for the year ended 31 December 2023, together with the audited consolidated financial statements of the Group for 2023, which were prepared in accordance with the International Financial Reporting Standards.

GENERAL INFORMATION

The Company is a joint stock limited company incorporated in the PRC on 6 February 2018. The H shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 27 January 2022.

The general information of the Company was set out on pages 4 to 5 in the section headed "Corporate Information" of this annual report.

DIRECTORS AND SUPERVISORS

For the year ended 31 December 2023 and up to the Latest Practicable Date, the Directors and Supervisors in office were as follows:

Executive Director

Mr. Xu Hui (Chief Executive Officer)

Non-executive Directors

Dr. Kai-Fu Lee (Chairman)
Mr. Wang Hua
Mr. Wang Jinqiao

Independent non-executive Directors

Mr. Xie Deren
Ms. Ko Wing Yan Samantha
Ms. Jin Keyu

Supervisors

Ms. Lin Ying
Ms. Duan Chengjin
Mr. Nie Mingming (resigned on 30 January 2024)
Ms. Gao Lingyan (appointed on 30 January 2024)

Biographical details of the Directors, Supervisors and the senior management of the Company are set out on pages 80 to 97 in the section headed "Directors, Supervisors, Senior Management and Employees" of this annual report.

BUSINESS REVIEW

The business review of the Company for the year and an indication of likely future development in the business of the Group are set out in the "Business Overview" and "Management Discussion and Analysis" of this annual report.

MAJOR RISKS AND UNCERTAINTIES

The major risks and uncertainties that we face include:

- The AI industries in which we operate are characterized by constant changes, especially in the AIGC areas. If we fail to continuously improve our technology and provide innovative solutions that meet the expectations of our customers, our business, financial condition and results of operations may be materially and adversely affected.
- The AI solutions industries in which we operate are highly competitive and fragmented, and we face competition in several major aspects of our business. If we fail to compete successfully against our current or future competitors, our business, financial condition and results of operations may be materially and adversely affected.
- AI technologies are constantly evolving. Any flaws or misuse of the AI technologies, whether actual or perceived, whether intended or inadvertent, whether committed by us or by other third parties, could have negative impact on our business, reputation and the general acceptance of AI solutions by the society.
- We have a limited operating history, which makes it difficult to evaluate our business and future prospects.
- We are investing heavily in our R&D efforts, which may negatively impact our profitability and operating cash flow in the future and may not generate the results we expect to achieve.
- If we fail to retain existing customers, attract new customers or increase the spending by our customers, our business and results of operations may be materially and adversely affected.
- If our expansion into new verticals is not successful, our business, prospects and growth momentum may be materially and adversely affected.
- We may be subject to complex and evolving laws and regulations regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws and regulations could damage our reputation, deter current and potential customers from using our solutions and could subject us to significant legal, financial and operational consequences.

ENVIRONMENTAL POLICIES AND PERFORMANCE

On the way of exploring AI products and business solutions, AInnovation has always been committed to the original idea of "Technology for Good, Empowering Value" and continues to practice the concept of Environmental, Social and Governance (ESG). Internally, we are committed to providing higher value AI products and solutions to our customers by strengthening our research and development and innovation capabilities through innovation-driven services and relying on a continuously growing talent pipeline. Externally, as an explorer on the path of AI products and business solutions, we promote technological innovation as one of the important ways to fulfill our corporate social responsibility. With customized products and services, we continue to empower digital transformation in various fields, help enterprises reduce costs and increase efficiency, and promote the realization of energy saving and emission reduction and the safe guarding of personnel.

IMPROVING CORPORATE GOVERNANCE

AInnovation attaches great importance to corporate governance and regards good corporate governance as one of the necessary conditions for the Company to achieve sustainable development. We have established a sound decision-making and management system, with the Board of Directors as the highest responsible body for ESG management, responsible for formulating the Company's ESG management policy and strategy, and a three-level ESG governance structure consisting of the Board of Directors, senior management and ESG working group. We have clearly defined ESG functions at each level and invite external organizations to conduct relevant training for members of the structure every year to help us manage our ESG issues more efficiently and accurately. In addition, we are aware of the importance of artificial intelligence ethics to the development of AI, and have gradually established AI ethics-related management responsibilities and review procedures, and are committed to building a more controllable and credible industry development prospect.

FULFILLING SOCIAL RESPONSIBILITY

AInnovation takes responsible operation as the cornerstone, continuously improves the R&D innovation mechanism, enhances the R&D innovation ability, and continuously promotes technological innovation and industrial application. We are committed to the development of socially friendly and environmentally friendly sustainable products. Through high-quality products and excellent services, we provide business support for customers in various industries and sectors, and help them build a more sustainable business and development model. During the Reporting Period, we assisted customers' manufacturing plants to efficiently realize intelligent analysis of illegal wearing behavior, escorted safe production, achieved more accurate energy consumption analysis for customers' R&D and manufacturing bases, and improved the efficiency of their energy use and operation and maintenance work. At the same time, we have established a comprehensive information security management system, and take "the reliable and controllable system, the safe and credible data, the legal and compliant behavior, and the preventable and traceable incident" as the overall policy, and implement a series of security control points and paths to build a strong information security defense line.

For employees, we provide our employees with competitive salaries and benefits, and have established a clear and transparent promotion mechanism and a comprehensive training system to continuously tap the potential of employees and support their growth. For partners, we maintain business relationships with integrity, justice and fairness, and give priority to establishing long-term cooperative relationships with suppliers with a strong sense of corporate social responsibility and green environmental awareness. We also conduct supplier performance assessments from multiple dimensions to help suppliers improve their capabilities and work together to promote sustainable ecological construction of supply chain. In addition, we have carried out strategic cooperation with a number of industry partners, to give full play to the advantages of both parties, jointly explore the commercialization of AIGC technology in various industries, and create a digital and intelligent future by sharing technical advantages.

We continue to help the training of industry talents, and have established the "AInnovation Industrial Robot Innovation Center and High-skilled Talent Cultivation Base" to cultivate and transport high-quality technical talents for the industry. We also do not forget to promote the development of youth education, and provide practical opportunities for young people through the "Youth Artificial Intelligence Education Practice Base", to empower education with innovative cutting-edge technology.

GUARDING THE GREEN ENVIRONMENT

AInnovation actively fulfills its responsibility for environmental protection. We give priority to buildings with green building certification as our office space, and insist on promoting green operations. We actively take measures such as energy conservation, resource recycling, and enhancing employees' environmental awareness in our daily operations to contribute to the green ecological environment. At the same time, we actively respond to the risks and opportunities brought by climate change. In response to extreme weather, we have formulated emergency plans to ensure the safety of employees and property. At the same time, we actively respond to the national "carbon peak, carbon neutral" goal, and use AI technology to help customers cope with climate change-related risks and jointly move forward on the road of green development.

For details, please refer to the 2023 Environmental, Social and Governance Report of Qingdao AInnovation Technology Group Co., Ltd. to be disclosed by the Company in due course.

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach or non-compliance of applicable laws and regulations by the Group and there was no non-compliance which, in the opinion of the Board and the management, individually or collectively, would have a material adverse effect on the business of the Group as a whole.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company recognizes that employees are one of the most significant assets of the Group. The Company provides good working environment and effective incentive mechanism for employees, continuously optimizes employee training system, provides different career development paths for employees, guides employees to grow together with the enterprise, and protects the rights and interests of employees.

The Company maintains a good relationship with its customers and suppliers. The Company deeply understands the changing market demand and maintains a close relationship with customers by strengthening communication with customers. The Group actively and effectively strengthens the business cooperation with suppliers to ensure the timely delivery with good quality and the stability of the Company's business through continuous communication.

CONNECTED TRANSACTIONS

ONE-OFF CONNECTED TRANSACTION

CONNECTED TRANSACTION IN RELATION TO THE APPOINTMENT OF PLACING AGENTS

Date:

6 June 2023

Contracting Parties:

The Company, as the issuer

China International Capital Corporation Hong Kong Securities Limited ("**CICC HK**") and Goldman Sachs (Asia) L.L.C. ("**GS**", together with CICC HK, the "**Joint Placing Agents**"), as the Overall Coordinators, Joint Placing Agents and Capital Market Intermediaries for the placement of the Placing Shares

Subject Matters and Contract Consideration:

Pursuant to the Placing Agreement, the Company has agreed to issue and the Joint Placing Agents (as the joint placing agents of the Company), on a several basis, have agreed to make their best efforts to procure the Placees to subscribe for the Placing Shares at the Placing Price of HK$19.70 per H Share during the Placing Period under the terms and conditions of the Placing Agreement. In consideration of the services of the Placing Agents in relation to the Placing, the Joint Placing Agents will be entitled to receive (1) a fixed commission representing 2% of the amount equal to the Placing Price multiplied by the number of Placing Shares in the proportion of the Placing Shares as agreed on under the Placing Agreement, which the settlement agent of the Placing shall be authorised to deduct from the payment on behalf of the Joints Placing Agents; and (2) an additional discretionary fee (at a percentage to be determined at the Company's sole discretion) out of the aggregate discretionary fee pool of up to 0.5% of the amount equal to the Placing Price multiplied by the number of Placing Shares. The Company has paid the commission of HK$3,920,300 to CICC HK.

Listing Rules Implications

CICC HK, being one of the Joint Placing Agents and an indirectly wholly-owned subsidiary of China International Capital Corporation Limited ("**CICC**"), is an associate of CICC ALPHA (Beijing) Private Equity Investment Fund Management Co., Ltd. ("**CICC ALPHA**"). CICC ALPHA indirectly holds approximately 14.02% of the issued share capital of the Company as at the date of the Placing Agreement and is a substantial shareholder of the Company. Therefore, CICC ALPHA is a connected person of the Company. Hence, CICC HK is a connected person of the Company, and the transactions contemplated under the Placing Agreement constitute connected transaction of the Company.

Please refer to the announcements of the Company dated 7 June 2023 and 14 June 2023 for details of connected transaction in relation to the appointment of Placing Agents.

CONTINUING CONNECTED TRANSACTIONS

IMAGE DETECTION TECHNOLOGY SERVICE FRAMEWORK AGREEMENT

Contracting Parties

The Company; and

Sinovation Ventures

Principal terms

The Group entered into a framework agreement with Sinovation Ventures (the "**Image Detection Technology Service Framework Agreement**") on 12 January 2022, pursuant to which the Group will provide customized image detection technology services including development, operation and maintenance of automatic machine learning image detection platforms, to Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a customer designated by Sinovation Ventures (the "**Designated Customer**") (the "**Transaction**"). To improve its operational efficiency and promote its digitalized business process, the Designated Customer began to establish business relationship with us in 2020. The Designated Customer requires a large number of sales management personnel covering regions where its products are sold to inspect the retail points of sale, and review the sales performance on a regular basis, which results in a large amount of labor costs.

The image detection technology could assist the Designated Customer to efficiently screen the displayed products and analyze the percentage of displayed products of the Designated Customer and its competitors and respective prices in retail points of sales, so that the Designated Customer could conveniently track the sales performance on a real-time basis, and thus improve the inspection efficiency, strengthen supervision, and reduce the inspection costs. The initial term of the Image Detection Technology Service Framework Agreement will commence on the Listing Date (i.e. 27 January 2022) and end on 31 December 2024, and can be renewed upon its expiry as agreed by the parties to the agreement.

Subject to the general principles as set out in the Image Detection Technology Service Framework Agreement, separate underlying agreements will be entered into which will set out the details of the services provided, price, payment method and other details of the service arrangements. The definitive terms of each of such agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

Reasons for the transaction

The Designated Customer is a leading dairy enterprise listed on the Shanghai Stock Exchange (stock code: 600887). As a listed company, it has in place an internal policy for selection of suppliers, considering such factors including length of operational period, amount of registered capital, independence, its current business relationship with the Designated Customer's competitor, profitability and industry knowledge. Although the Group fulfill the requirements of amount of registered capital, independence of the Designated Customer and its competitors, and industry knowledge based on our technical capabilities, due to relatively short operation history of the Group, the Group has not met the requirements of the length of operational period and profitability, but Sinovation Ventures has met all the requirements set out by the Designated Customer. Established in November 2011, Sinovation Ventures is a platform for supporting business startups and technology innovation, primarily engaged in providing entrepreneurial services including consultation and financing for startups, and fund management outsourcing services. In particular, the Designated Customer also considers Sinovation Ventures has met the requirements of industry knowledge considering its long-term investment in our Company, as well as our business capability and experience. Accordingly, the Designated Customer chose to enter into agreements with Sinovation Ventures, considering it would in turn engage the Group to provide image detection technology services to the Designated Customer directly. Sinovation Ventures began to enter into agreements with the Designated Customer in December 2019. Sinovation Ventures was not engaged in any businesses which compete or were likely to compete with the Group as of the Latest Practicable Date.

The provision of image detection technology services to Sinovation Ventures will be conducted in our ordinary course of business and on a continuing basis, which will provide the Group with a stream of recurrent income and enhance our financial performance.

For details of the Transaction please refer to the section of "Connected Transactions" of the Company's Prospectus.

Pricing policies

Fees to be received by the Group consist of (i) a fixed fee charged for the development of the image detection platforms; and (ii) fees for the subsequent use of the platforms with different ranges categorized by number of images detected. Such fees shall be determined by relevant parties at arm's length negotiation on a cost-plus basis and shall be no more favorable than similar services the Group provided to other independent third parties. Fee structure charged by Sinovation Ventures on the Designated Customer is identical to the fee structure charged by us on Sinovation Ventures under the Image Detection Technology Service Framework Agreement. Fees paid by Designated Customer to Sinovation Ventures and fees paid by Sinovation Ventures to the Group were negotiated and agreed among the Designated Customer, Sinovation Ventures and the Group. After the Designated Customer pays the service fees to Sinovation Ventures, Sinovation Ventures would charge no more than 5% of such fees as rewards for facilitating the business cooperation of the Group and the Designated Customer which is determined at the arm's length negotiation between Sinovation Ventures and our Company, and pay the rest of the amounts to the Group. Fees paid to the Group after such deduction shall be still no less favorable than similar services the Group provides to other independent third parties.

Historical amounts

The Group has started to provide image detection technology services to Sinovation Ventures from 2020. The historical amounts of transaction relating to the provision of image detection technology services by the Group to Sinovation Ventures for the years ended 31 December 2021, 31 December 2022 and 31 December 2023 were approximately RMB2,388,000, RMB5,758,000 and RMB749,000, respectively.

In 2023, the Group also started to directly provide image detection technology service to the Designated Customer, the historical transaction amount between the Group and Sinovation Ventures for the year ended 31 December 2023 has therefore declined.

Annual caps

The Company has issued an announcement in relation to the Transaction proposing to revise the annual caps from RMB3.5 million, RMB4.5 million and RMB6 million to RMB7 million, RMB9 million and RMB12 million for the years ending 31 December 2022, 31 December 2023 and 31 December 2024, respectively.

When determining the annual caps, the Company has taken into consideration the following factors:

(i) The Group began to provide image detection technology services to Sinovation Ventures since 2020. Based on historical transaction amounts, such services were continued to expand to new business departments of Designated Customer while development was carried out in the first half of 2022 on the basis of the existing business cooperation. It is expected to record a significant increase in the service fees after the services being put into use successively in the second half of 2022. While the cooperation further evolved, the scale of cooperation continued to expand, and the image detection platforms were more widely applied since 2022. For the six months ended 30 June 2022, the actual transaction amount incurred was over RMB1.72 million. Taking into account the current operations and the growth trend, the Group expects the transaction amount to grow further in the second half of 2022 and reach approximately RMB6 million throughout 2022. In addition, in determining the revised annual cap for 2022, the Group has applied an additional buffer of 15% on the expected transaction amounts of approximately RMB6 million to cater to the potential needs for business growth and ensure the flexibility in the cooperation between the Group and the Designated Customer.

(ii) Given the high efficiency of the Group in the provision of image detection technology services, the applications of these services provided by the Group were further expanded in business units and scenarios of the Designated Customer. On the basis of service applications in two of the business units of the Designated Customer, the Group recently expanded the scope of service applications again to cover two new business units of the Designated Customer and executed the service order agreement accordingly. Hence, it is reasonable to expect the annual transaction amount to exceed the original annual cap for 2022 to a larger extent.

    In light of the existing business relationship between us and the Designated Customer, and the fact that the Designated Customer still has a high expectation for us in terms of business development and a demand for cooperation, the Group and the Designated Customer are looking forward to developing a more in-depth and extensive business relationship in 2023 and 2024, which will drive the continuous growth in the total cooperation amount. As a result, a reasonable estimation is made in relation to the annual caps for 2023 and 2024, based on the revised annual cap for 2022 and an annual incremental rate of approximately 30% for the transaction amounts.

(iii) In view of the effectiveness of the image detection technology services provided by the Group, the demand for image detection technology of our Group from the existing business units of the Designated Customer continued to grow and our platforms received more images of business scenarios for recognition. The increase in the usage frequency of the existing image detection platforms, the development of new scenarios and the number of image requests led to the rising number of images detected by the Group and boosted the fee charged by it for the image detection services accordingly. As such, it is reasonable to expect the growth in transaction amount to exceed the previous expectation for the three years ending 31 December 2024 to a larger extent.

    For details of the proposed revision to the annual caps in respect of the Transaction, please refer to the Company's announcement dated 31 August 2022.

Listing Rules implications

As of 31 December 2023, as Sinovation Ventures held approximately 27.33% equity interest in the Company, it is a connected person of the Company. The Transaction under the Image Detection Technology Service Framework Agreement constitutes continuing connected transactions of the Company under the Listing Rules. In respect of the Image Detection Technology Service Framework Agreement, as the highest applicable percentage ratio (as defined in the Listing Rules) under it for each of the three years ending 31 December 2022, 2023 and 2024 is expected to exceed 0.1% but be less than 5%, it is subject to the annual reporting requirement and the announcement requirement but will be exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Confirmation from the Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the above-mentioned continuing connected transactions and confirmed that:

(1) the above-mentioned continuing connected transactions are conducted in the ordinary and usual course of business of the Group;

(2) the above-mentioned continuing connected transactions are entered into on normal commercial terms or better terms; and

(3) the above-mentioned continuing connected transactions are conducted according to the Image Detection Technology Service Framework Agreement on terms which are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Confirmation from the Independent Auditor

The independent auditor has performed the relevant procedures regarding the 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 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The independent auditor has issued an unqualified letter stating that:

(1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

(2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(4) with respect to the aggregate amount of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

Save as disclosed above, no related party transactions set out in Note 41 to the consolidated financial statements constitute disclosable connected transactions or continuing connected transactions under the Listing Rules. During the Reporting Period, the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

RESULTS AND APPROPRIATIONS

The Group's results and financial position for the year ended 31 December 2023 are set out on pages 28 to 37 in the section headed "Management Discussion and Analysis" of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023.

TAX RELIEF AND EXEMPTION

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

ISSUED SHARE CAPITAL

As of 31 December 2023, the total share capital of the Company was RMB565,050,738, divided into 565,050,738 shares of RMB1.00 per each. Details of the movement of the share capital of the Company during the Reporting Period are set out in Note 27 to the financial statements.

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

During the Reporting Period and up to 28 March 2024, the Company repurchased a total of 833,700 H Shares (the "**Repurchased Shares**") on the Stock Exchange for a total consideration of approximately HK$18,174,581. Details of the Repurchased Shares are as follows:

		Price per share paid		
Month of Repurchase	Repurchased Number of shares	Highest Price (HKD)	Lowest Price (HKD)	Total Consideration (HKD)
2023				
January	23,400	25.30	25.25	591,915
April	810,300	22.75	16.32	17,582,666
Total	**833,700**			**18,174,581**

As at 22 May 2023, the Repurchased Shares have been cancelled by the Company and the balance of the issued shares of the Company was 565,050,738 shares as at 31 December 2023. The repurchase of the Shares as referred to in the circular of the Company dated 14 April 2022 was for the purpose of stabilizing the share price of the Company and safeguarding the value of the Company and the interests of the shareholders.

Save as disclosed in this annual report, neither the Company nor the Company's subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period and up to 28 March 2024.

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group for 2023 are set out in Note 15 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, total sales to the five largest customers of the Company accounted for approximately 22.7% of the total revenue for the year, while the total sales to the largest customer accounted for 9.5% of the total revenue for the year.

For the year ended 31 December 2023, the total purchase from the five largest suppliers of the Company accounted for approximately 21.2% of the cost of sales for the year, while the total purchase from the largest supplier accounted for 6.5% of the cost of sales for the year.

For the year ended 31 December 2023, to the knowledge of the Directors, none of the Directors, their associates, or Shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had interests in the five largest customers or suppliers of the Group.

EMPLOYEES

Employees are the key to the Group's sustainable development. For details of the Group's employees, please refer to "Directors, Supervisors, Senior Management and Employees - Employees and Remuneration Policies" on page 89.

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2023, borrowings of the Group were RMB76.7 million (31 December 2022: RMB57.6 million). Details of bank loans and other borrowings of the Group for 2023 are set out in Note 33 to the financial statements.

EXTERNAL DONATION

During the Reporting Period, the Group did not give any donation.

SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISOR

Each of the Directors and Supervisors has entered into a service contract with the Company. The principal particulars of these service contracts: (1) include the term of appointment, which commences from the date of appointment and ends on the date of expiry of the current session of the Board/Board of Supervisors; and (2) are subject to termination in accordance with the respective terms.

None of Directors or Supervisors has entered into a service contract with the Company which is terminable by the Company within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors and Supervisors receive compensation in the form of fees, salaries, allowance, discretionary bonus, pension scheme contributions and other benefits in kind (if applicable), or in the form of cash and/or incentive shares. The remuneration of the Directors is determined in accordance with reference to the recommendation from the Remuneration Committee, the market levels and the competency, contributions and the responsibilities towards the Company.

Details of the Directors and the five highest paid individuals of the Company are set out in Note 8 and Note 43 to the financial statements.

No Directors waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

During the Reporting Period, the Group did not participate in, directly or indirectly, concluding transactions, arrangements and contracts of significance in which the Director or the Supervisor or any entity which he or she was related to was materially interested, and related to the businesses of the Company and were subsisting during or by the end of the year.

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN COMPETING BUSINESSES

During the Reporting Period, none of the Directors, Supervisors, the senior management or their respective associates had any interests in any business which competes or is likely to compete directly or indirectly with the business of the Group or had any other conflicts of interest with the Group.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

During the Reporting Period, the Company has no controlling Shareholders. Save as disclosed under the section headed "Connected Transactions" and paragraphs under note 41 of the Notes to the Financial Statements of this annual report, there is no contract of significance, whether for the provision of services or otherwise, to the business of the Group between the Company, or any of its subsidiaries, or the Single Largest Shareholders Group or any of its subsidiaries during the Reporting Period.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

For information on the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, please refer to "Changes in Share Capital and Information of Shareholders - Directors', Supervisors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of The Company and Its Associated Corporation" at on pages 59 to 60.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period, the Company has no controlling Shareholders. For the year ended 31 December 2023, the Company, or any of its subsidiaries did not have or has participated at any time during the year in any arrangement through which the Directors and Supervisors of the Company may benefit by purchasing shares or debentures of the Company or any other entities.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2023.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2023.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

For details of shareholding of substantial Shareholders in the Company, please refer to "Changes in Share Capital and Information of Shareholders - Interests and Short Positions of Substantial Shareholders in the Shares or Underlying Shares" on pages 60 to 62.

PRE-EMPTIVE RIGHT AND SHARE OPTION ARRANGEMENTS

During the year ended 31 December 2023, the Company had no pre-emptive right and share option arrangements. There are no specific provisions under the PRC laws or the Articles of Association of the Company in relation to pre-emptive rights.

PERMITTED INDEMNITY PROVISIONS

The Company has maintained appropriate liability insurance for its Directors, Supervisors and senior management. Such liability insurance is set out in the permitted indemnity provisions. Save as the above, none of the Directors of the Company were benefited from any effective permitted indemnity provisions as of 31 December 2023.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company had no reserves available for distribution to shareholders.

Details of movements in reserves of the Group and the Company are set out in Note 29 and Note 42 to the financial statements, respectively.

COMPLIANCE WITH NON-COMPETITION UNDERTAKINGS BY THE SINGLE LARGEST SHAREHOLDERS GROUP

None of the member of the Single Largest Shareholders Group is interested in any business which is, whether directly or indirectly, in competition with our business. To ensure that competition will not exist in the future, each of the member of the Single Largest Shareholders Group has entered into the Deed of Non-Competition (as stated below) in favor of the Company.

Each of Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying has signed a non-competition undertaking on 12 January 2022 in favor of our Group (the "**Non-competition Undertaking**"). Pursuant to the Non-competition Undertaking, the Single Largest Shareholders Group has irrevocably undertaken that, it would not and will procure that its close associates (except any members of our Group) would not, directly or indirectly, whether as principal or agent, either on its own account or in conjunction with or on behalf of any person, firm or company, whether inside or outside the PRC, among other things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is or may be in competition with the principal business of any member of our Group from time to time (the "**Restricted Business**").

PUBLIC FLOAT

The H Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 27 January 2022. As at the Latest Practicable Date, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

USE OF PROCEEDS FROM SHARE PLACING

In order to enhance the financial strength, enhance market competitiveness and comprehensive strength, and promote the long-term healthy and sustainable development of the Company, on 14 June 2023, the Company successfully placed a total of 19,900,000 new H Shares with nominal value of RMB1.00 each to not less than six Placees (who are independent professional, institutional or other investors), who and whose ultimate beneficial owner(s) are Independent Persons and not connected persons of the Company, at the Placing Price of HK$19.70 per H Share (a discount of approximately 16.17% to the closing price of HK$23.50 per H Share quoted on the Stock Exchange on 6 June 2023 (being the date of the Placing Agreement)).

The net proceeds from the Placing amounted to approximately HK$378,856,331, and no proceeds have been utilized during the Reporting Period. The Company intends to use the net proceeds for the purposes set forth below:

Use	Amount	Amount (RMB)	Percentage	The actual use of net proceeds during the Reporting Period	The unutilized net proceeds as of 31 December 2023	Expected timeline for utilization of the unutilized net proceeds
Investment in R&D	Approximately HK$151.5 million	Approximately RMB139.1 million	About 40.0%	–	Approximately RMB139.1 million	On or before 31 December 2024
Investment in sales and marketing	Approximately HK$37.9 million	Approximately RMB34.77 million	About 10.0%	–	Approximately RMB34.77 million	On or before 31 December 2024
Investment in strategic expansion	Approximately HK$113.7 million	Approximately RMB104.32 million	About 30.0%	–	Approximately RMB104.32 million	On or before 31 December 2024
Investment in enhancing our internal system and upgrading our IT infrastructure	Approximately HK$37.9 million	Approximately RMB34.77 million	About 10.0%	–	Approximately RMB34.77 million	On or before 31 December 2024
Working capital	Approximately HK$37.9 million	Approximately RMB34.77 million	About 10.0%	–	Approximately RMB34.77 million	On or before 31 December 2024

The above uses are in line with the Company's use of proceeds from the Placing as previously disclosed. Please refer to the announcements of the Company dated 7 June 2023 and 14 June 2023 for details of the Placing.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 27 January 2022 and 44,744,400 shares with nominal value of RMB1.00 each were issued to Hong Kong and overseas investors at an offer price of HK$26.3 per share. The net proceeds received by the Company from the Global Offering, after deduction of the underwriting commission and other estimated expenses payable by the Company, are estimated to be approximately HK$1,070.1 million. The Company currently intends to use such net proceeds for the following purposes:

Uses	Amount	Amount (RMB)	Percentage	The unutilized net proceeds as of 31 December 2022	The actual use of net proceeds during the Reporting Period	The unutilized net proceeds as of 31 December 2023	Expected timeline for utilization of the unutilized net proceeds
Enhancing our R&D capabilities	Approximately HK$481.6 million	Approximately RMB392.05 million	About 45.0%	Approximately RMB239.97 million	Approximately RMB217.17 million	Approximately RMB22.80 million	On or before 31 December 2024
Enhancing our commercialization capabilities	Approximately HK$267.5 million	Approximately RMB217.81 million	About 25.0%	Approximately RMB217.81 million	Approximately RMB206.51 million	Approximately RMB11.30 million	On or before 31 December 2024
Potential strategic investments and acquisitions	Approximately HK$107.0 million	Approximately RMB87.12 million	About 10.0%	Approximately RMB87.12 million	–	Approximately RMB87.12 million	On or before 31 December 2024
Strengthening internal systems and upgrading information infrastructure	Approximately HK$107.0 million	Approximately RMB87.12 million	About 10.0%	Approximately RMB87.12 million	Approximately RMB39.88 million	Approximately RMB47.24 million	On or before 31 December 2024
Working capital and general corporate use	Approximately HK$107.0 million	Approximately RMB87.12 million	About 10.0%	Approximately RMB51.72 million	Approximately RMB51.25 million	Approximately RMB0.47 million	On or before 31 December 2024

In addition, to increase the efficiency in use of capital, with the approval of the Board, the Company has extended the use of proceeds as set out in the Prospectus by changing "short-term deposits with banks or qualified financial institutions" to "short-term deposits with banks or qualified financial institutions, or to purchase wealth management products, including but without limitation to structured deposits, treasury bonds, central bank bills, bond repurchase, money funds and bond funds". The Company has applied the net proceeds from the Global Offering based on plans as previously disclosed, and the unutilised net proceeds from the Global Offering are expected to be utilised in accordance with the intended use as set out in the Prospectus as well as the use upon above changes in the same manner as previously disclosed by the Company.

AUDIT COMMITTEE

The Audit Committee under the Board has reviewed the annual results and the annual report of the Company for 2023 and the audited consolidated financial statements for the year ended 31 December 2023 which was prepared in accordance with the International Financial Reporting Standards.

AUDITOR

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers, who shall retire from the forthcoming annual general meeting and, being eligible, offer itself for reappointment.

The Company did not change its auditor since the Listing Date.

By Order of the Board
QINGDAO AINNOVATION TECHNOLOGY GROUP CO., LTD
青島創新奇智科技集團股份有限公司
Xu Hui
Executive Director and Chief Executive Officer

Hong Kong, 28 March 2024

Report of the Supervisory Committee

COMPOSITION OF THE SUPERVISORY COMMITTEE

As of 31 December 2023, the Supervisory Committee consists of three Supervisors, including two Supervisors appointed by shareholders' general meeting and one employee representative Supervisor. The Supervisors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office. Among them, the term of office of Ms. Duan Chengjin shall commence from the date of approval at the extraordinary general meeting of shareholders until the expiration of the first session of the Supervisory Committee.

As of 31 December 2023, composition of the Supervisory Committee of the Company is set out as follows:

Name	Position	Date of appointment	Duties
Ms. Lin Ying	Supervisor	6 February 2018	Overseeing our operations and financial activities
Ms. Duan Chengjin	Supervisor	27 September 2022	Overseeing our operations and financial activities
Mr. Nie Mingming[1]	Employee Representative Supervisor	14 May 2021	Overseeing our operations and financial activities

(1) Due to job changes, Mr. Nie Mingming resigned as the employee representative supervisor of the Company with effect from 30 January 2024. Ms. Gao Lingyan has been appointed as the employee representative supervisor of the Company to replace Mr. Nie Mingming with effect from 30 January 2024. Please refer to the announcement of the Company dated 30 January 2024 for details of change of employee representative supervisor of the Company.

MAJOR ACTIVITIES UNDERTAKEN BY THE SUPERVISORY COMMITTEE IN 2023

In 2023, all members of the Supervisory Committee abided by the principle of good faith, strengthened the coordination and cooperation with the Board and the senior management, diligently performed their supervisory duties and effectively safeguarded the legitimate rights and interests of the Company, the Shareholders and employees based on the principle of accountability to all Shareholders of the Company.

(1) Convening the Supervisory Committee meetings according to law and duly performing the duties of the Supervisory Committee

In 2023, the Supervisory Committee convened a total of 2 Supervisory Committee meetings. All Supervisors attended these meetings.

The Supervisors carefully reviewed the meeting materials before attending the Supervisory Committee meetings, and fully studied and discussed the proposals. The Supervisors attended all Supervisory Committee meetings in person and earnestly performed supervisory duties.

(2) Supervising the Directors and senior management of the Company in their performance of duties

In 2023, the Supervisory Committee earnestly performed its supervision duties, had a better knowledge of corporate governance workflow, major operational decision making and the implementation thereof by attending meetings of the Board and its special committees, implementation of the general meetings' resolutions by the Board and that of the Board's resolutions by the management, and supervised the performance of duties by the Directors and the senior management of the Company. The Supervisory Committee considered that the operation of the Board and the senior management of the Company were normal and the decision procedures were legal. The Board and senior management of the Company conscientiously and dutifully performed their work and fully performed the duty of diligence. When performing their duties, none of the Directors or senior management of the Company acted illegally nor in violation of regulations or in such manner the rights and interests of the Company and shareholders were damaged.

MAJOR INITIATIVES BY THE SUPERVISORY COMMITTEE IN 2024

The Supervisory Committee will strictly comply with the laws and regulations, Articles of Association and the terms of reference of the Supervisory Committee of the Company and diligently and responsibly perform their duties to safeguard the interests of the Company and all Shareholders, including:

(1) to convene meetings of the Supervisory Committee according to the actual situation of the Company, and review and approve various proposals;

(2) to attend Board meetings and general meetings in accordance with the law, understand the major decision of the Company in a timely manner, supervise the legitimate operation of the decision-making procedures of the Board and general meetings, and earnestly safeguard the legitimate rights and interests of the Company and all Shareholders;

(3) to promote standardized operation of the Company and prevent operational risks, through the supervision and inspection of the Company's financial management, internal control, risk management, major decisions and other matters.

Changes in Share Capital and Information of Shareholders

SHARE CAPITAL

The Company's shares were listed on the Main Board of the Stock Exchange on 27 January 2022 with 44,744,400 Shares of RMB1.00 each in issue. On 22 May 2023, the Company cancelled totally 14,154,100 Shares repurchased. On 14 June 2023, the Company completed the placement of 19,900,000 Shares under general mandate. As of 31 December 2023, the total share capital of the Company was RMB565,050,738 divided into 565,050,738 shares of RMB1.00 each.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 31 December 2023, the interests and short positions of the Directors, Supervisors and the chief executives of the Company 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 recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code are set out below:

Interest in the Shares of the Company

Name of Directors, Supervisors and the Company's Chief Executive Officer	Nature of interest	Number of ordinary shares held	Long position/ short position	Approximate percentage of the issued shares
Mr. Xu Hui	Beneficial interests	54,828,875	long positions	9.70%
	Interests in controlled corporations	38,683,007	long positions	6.84%
Mr. Wang Hua[(1)]	Beneficial interests	8,640,000	long positions	1.53%
	Jointly held interests with another person	145,800,000	long positions	25.80%
Mr. Xie Deren	Beneficial interests	831,992	long positions	0.14%

Note:

(1) Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua and Ms. Tao Ning directly held 135,000,000, 8,640,000, 8,640,000 and 2,160,000 Shares in our Company, respectively. Pursuant to concert party arrangement, Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying formed our Single Largest Shareholders Group. As such, each of Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying is deemed to be interested in the Shares held by other members of our Single Largest Shareholders Group.

Save as disclosed above, as at 31 December 2023, none of the Directors, Supervisors or the chief executives had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES OR UNDERLYING SHARES

So far as known to any Director or chief executives of the Company, as at 31 December 2023, the persons (other than Director and chief executives of the Company) or corporations who had interest or short positions in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of ordinary shares held	Long position/ short position	Approximate percentage of the issued shares
Sinovation Ventures[1]	Beneficial interest	135,000,000	Long position	23.89%
	Interest held jointly with other persons	19,440,000	Long position	3.44%
Nuosai Yucheng[1]	Beneficial interest	8,640,000	Long position	1.53%
	Interest held jointly with other persons	145,800,000	Long position	25.80%
Mr. Wang Hua[1]	Beneficial interest	8,640,000	Long position	1.53%
	Interest held jointly with other persons	145,800,000	Long position	25.80%
Ms. Tao Ning[1]	Beneficial interest	2,160,000	Long position	0.38%
	Interest held jointly with other persons	152,280,000	Long position	26.95%
Ms. Lang Chunhui[1]	Interest held jointly with other persons	154,440,000	Long position	27.33%
Mr. Zhang Ying[1]	Interest held jointly with other persons	154,440,000	Long position	27.33%
Beijing Financial Street Xicheng Equity Investment Fund (Limited Partnership) ("**Xicheng Fund**")[2]	Interest in controlled corporation	49,787,662	Long position	8.81%
Zhongjin Xicheng (Beijing) Investment Co., Ltd. (仲金熙誠(北京)投資有限公司) ("**Zhongjin Xicheng**")[2]	Investment manager	49,787,662	Long position	8.81%

Name of shareholder	Nature of interest	Number of ordinary shares held	Long position/ short position	Approximate percentage of the issued shares
Mr. Xu Hui[3]	Beneficial interest	54,828,875	Long position	9.70%
	Interest in controlled corporation	38,683,007	Long position	6.84%
Qingdao Xinnuo Zhicheng Technology Co., Ltd. (青島新諾智成科技有限公司) ("**Qingdao Xinnuo Zhicheng**")[3]	Interest in controlled corporation	33,325,780	Long position	5.89%
SB Global Advisers Capital Markets Limited	Interest in controlled corporation	39,326,630	Long position	6.96%
SB Global Advisers Limited	Interest in controlled corporation	39,326,630	Long position	6.96%
SoftBank Group Corp.	Interest in controlled corporation	39,326,630	Long position	6.96%
SoftBank Group Overseas GK	Interest in controlled corporation	39,326,630	Long position	6.96%
SoftBank Vision Fund II-2 L.P.	Interest in controlled corporation	39,326,630	Long position	6.96%
SVF II Aggregator (Jersey) L.P.	Interest in controlled corporation	39,326,630	Long position	6.96%
SVF II GP (Jersey) Limited	Interest in controlled corporation	39,326,630	Long position	6.96%
SVF II Holdings (DE) LLC	Interest in controlled corporation	39,326,630	Long position	6.96%
SVF II Holdings (Singapore) Pte Ltd.	Interest in controlled corporation	39,326,630	Long position	6.96%
SVF II Investment Holdings (Subco) LLC	Interest in controlled corporation	39,326,630	Long position	6.96%
SVF II Investment Holdings LLC	Interest in controlled corporation	39,326,630	Long position	6.96%
SVF II Zeal Subco (Singapore) Pte. Ltd.	Beneficial interest	39,326,630	Long position	6.96%
Qingdao Xinnuo Zhiqi Business Management Consulting Partnership Enterprise (Limited Partnership) ("**Xinnuo Zhiqi**")[4]	Beneficial interest	33,814,634	Long position	5.98%
Qingdao Xinnuo Zhihe Technology Co., Ltd. (青島新諾智合科技有限公司) ("**Xinnuo Zhihe**")[4]	Interest in controlled corporation	33,814,634	Long position	5.98%
Mr. He Tao[4]	Interest in controlled corporation	33,814,634	Long position	5.98%
China International Capital Corporation Limited	Interest in controlled corporation	77,459,084	Long position	13.70%
		1,030,000	Short position	0.18%
CICC ALPHA (Beijing) Private Equity Investment Fund Management Co., Ltd.	Executor or administrator	76,429,084	Long position	13.52%
CICC Capital Management Co., Ltd.	Interest in controlled corporation	76,429,084	Long position	13.52%

Changes in Share Capital and Information of Shareholders

Notes:

(1) Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua and Ms. Tao Ning directly held 135,000,000, 8,640,000, 8,640,000 and 2,160,000 Shares in our Company, respectively. Sinovation Ventures and Nuosai Yucheng are collectively controlled by Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying pursuant to a concert party agreement among themselves. Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua and Ms. Tao Ning have been acting in concert and will continue to act in concert in the Company's Shareholders meetings and Board meetings pursuant to a concert party agreement among themselves. As a result, Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying form our Single Largest Shareholders Group. As such, each of Sinovation Ventures, Nuosai Yucheng, Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying is deemed to be interested in the Shares held by other membesr of our Single Largest Shareholders Group.

(2) Ningbo Meishan Free Trade Port Hongxi Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區泓熙股權投資合夥企業(有限合夥)) ("**Hongxi Investment**"), Ningbo Meishan Free Trade Port Hongyue Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區泓越股權投資合夥企業(有限合夥)) ("**Hongyue Investment**") and Ningbo Meishan Free Trade Port Honger Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區泓爾股權投資合夥企業(有限合夥)) ("**Honger Investment**") held 23,133,126, 17,061,024 and 9,593,512 Shares in our Company, respectively. Zhongjin Xicheng is the general partner for each of Hongxi Investment, Hongyue Investment and Honger Investment, meanwhile Xicheng Fund is their sole limited partner with almost 100% of partnership interest whose administrator is CICC ALPHA. CICC ALPHA is held as to 51% by CICC Capital Management Co., Ltd. (中金資本運營有限公司) ("**CICC Capital**"), which is wholly owned by CICC. Therefore, each of Xicheng Fund, CICC ALPHA, CICC Capital and CICC is deemed to be interested in 23,133,126, 17,061,024 and 9,593,512 Shares held by Hongxi Investment, Hongyue Investment and Honger Investment, respectively. Chuangzhi Fund held 26,641,422 Shares in our Company whose administrator and general partner is CICC ALPHA. CICC ALPHA is held as to 51% by CICC Capital, which is wholly owned by CICC. Therefore, each of CICC ALPHA, CICC Capital and CICC is deemed to be interested in 26,641,422 Shares held by Chuangzhi Fund.

(3) Qingdao Innovation Zhicheng Technology Center (Limited Partnership) (青島創新智成科技中心(有限合夥)) ("**Innovation Zhicheng**") directly held 5,357,227 Shares in our Company and is beneficially owned by Mr. Xu Hui. Therefore, Mr. Xu Hui is deemed to be interested in the Shares held by Innovation Zhicheng for purpose of Part XV of the SFO. Qingdao Xinhui Zhiqi Entrepreneurship Service Center (Limited Partnership) (青島新輝智奇創業服務中心(有限合夥)) ("**Qingdao Xinhui**"), Qingdao Xinqi Entrepreneurship Service Center (Limited Partnership) (青島新奇創業服務中心(有限合夥)) ("**Qingdao Xinqi**") and Qingdao Xinda Entrepreneurship Service Center (Limited Partnership) (青島新達創業服務中心(有限合夥)) ("**Qingdao Xinda**") collectively held 33,325,780 Shares in our Company, whose general partner is Qingdao Xinnuo Zhicheng, which is wholly owned by Mr. Xu Hui. Therefore, each of Qingdao Xinnuo Zhicheng and Mr. Xu Hui is deemed to be interested in the 33,325,780 Shares held by Qingdao Xinhui, Qingdao Xinqi and Qingdao Xinda for purpose of Part XV of the SFO.

(4) Xinnuo Zhiqi directly held 33,814,634 Shares in our Company whose general partner is Xinnuo Zhihe, which is wholly owned by Mr. He Tao. Therefore, each of Xinnuo Zhihe and Mr. He Tao is deemed to be interested in the 33,814,634 Shares held by Xinnuo Zhiqi for purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2023, the Directors, the Supervisors and the chief executives of the Company are not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2023.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders of the Company, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code contained in Appendix C1 of the Listing Rules ("**CG Code**") as the basis of the Company's corporate governance practice. The Company is committed to the view that the Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Company has complied with all applicable code provisions set out in the CG Code during the Reporting Period.

The Company has also put in place certain recommended best practices as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND EMPLOYEES

The Company has adopted the Model Code to regulate all dealings by Directors, Supervisors and relevant employees of securities in the Company and other matters covered by the Model Code.

All Directors, Supervisors and relevant employees, having made specific enquiries, confirmed that they have been in compliance with the Model Code during the Reporting Period.

The Company has also adopted the Model Code for securities transactions by employees who may hold price-sensitive information of the Company that is not publicly available. The Company was not aware of any incompliance with the Model Code by any employee during the Reporting Period.

THE BOARD

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

BOARD COMPOSITION

The Board consists of seven Directors, including one executive Director, three non-executive Directors and three independent non-executive Directors. The current members of the Board of the Company are listed as follows:

Executive Director

Mr. Xu Hui (Chief Executive Officer)

Non-executive Directors

Dr. Kai-Fu Lee (Chairman)

Mr. Wang Hua

Mr. Wang Jinqiao

Independent non-executive Directors

Mr. Xie Deren

Ms. Ko Wing Yan Samantha

Ms. Jin Keyu

Biographical details of the Directors are set out on pages 80 to 97 in the section headed "Directors, Supervisors, Senior Management and Employees" of this annual report.

Save as disclosed above, there are no financial, business, family, or other material or relevant relationships among members of the Board, Supervisors, and senior management of the Company.

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

Pursuant to code provision C.5.1 of the CG Code, regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of the Directors.

All Directors should be given not less than fourteen days' notice for regular Board meetings. For other Board and Board committee meetings, reasonable notice should be given.

Other than regular meetings, the Chairman should hold one meeting with the independent non-executive Directors without the presence of other Directors.

For the year ended 31 December 2023, the Company held 6 Board meetings and one general meeting.

All seven Directors (Mr. Xu Hui, as executive Director; Dr. Kai-Fu Lee, Mr. Wang Hua and Mr. Wang Jinqiao, as non-executive Directors; Mr. Xie Deren, Ms. Ko Wing Yan Samantha and Ms. Jin Keyu, as independent non-executive Directors) attended the six Board meetings. Mr. Xu Hui, executive Director, Mr. Wang Jinqiao, non-executive Director, Mr. Xie Deren, Ms. Ko Wing Yan Samantha and Ms. Jin Keyu, independent non-executive Directors, attended the annual general meeting. Dr. Kai-Fu Lee and Mr. Wang Hua, non-executive Directors, were unable to attend the annual general meeting due to other business.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Kai-Fu Lee is the Chairman of the Board and Mr. Xu Hui is the Chief Executive Officer of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors play a significant role in the Board by virtue of their independent judgments and their views carry significant weight in the Board's decisions. They are experienced professionals in areas such as financial accounting and financial management. Their extensive experiences significantly contribute to enhancing the decision-making of the Board and achieving a sustainable and balanced development of the Group. In particular, they bring impartial and independent views and opinions on issues of the Company's strategy, performance and control, and take the lead in solution where potential conflicts of interests arise. The Board believes that its culture of openness and debate facilitates the effective contribution of executive Directors, non-executive Directors and independent non-executive Directors, in particular, to the Board and ensures constructive relationship among executive Directors, non-executive Directors and independent non-executive Directors, so as to better provide the Board with independent perspectives and opinions.

During the Reporting Period and up to the Latest Practicable Date, the Board has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board members, with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for a fixed term of three years commencing from the appointment date.

Directors shall be elected at a general meeting and shall serve a term of three years. A Director may serve consecutive terms if re-elected upon the expiration of his/her term. Any person appointed by the Board to fill up a casual vacancy in the Board or as an addition to the Board shall hold office only until the next shareholders' general meeting of the Company and shall then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association and the nomination policy of the Company. The Nomination Committee is responsible for reviewing the Board structure, size and composition, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the affairs of the Company.

The Board leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgments on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them.

The Board reserves its decision for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve any conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operations and management of the Company are delegated to the management.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Regular seminars will be arranged to update the Directors on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the performance, position and prospects of the Company to enable the Board as a whole and each of the Directors to discharge their duties.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

All Directors have participated in appropriate continuous professional development to develop and refresh their knowledge and skills. For the year ended 31 December 2023, all Directors (Mr. Xu Hui, as executive Director: Dr. Kai-Fu Lee, Mr. Wang Hua and Mr. Wang Jinqiao, as non-executive Directors; Mr. Xie Deren, Ms. Ko Wing Yan Samantha and Ms. Jin Keyu, as independent non-executive Directors) have attended training courses arranged by the Company's legal advisers on the Listing Rules and other relevant legal and regulatory requirements, directors' responsibilities under the SFO and listing compliance, information disclosure, etc.

BOARD COMMITTEES

The Board has established three committees namely, the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively, the "**Board Committees**"). All Board Committees are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are posted on the Company's website and the Hong Kong Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 4.

AUDIT COMMITTEE

The Audit Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Xie Deren, Mr. Wang Hua and Ms. Ko Wing Yan Samantha. Mr. Xie Deren is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting than those set out in the CG Code.

The primary duties of the Audit Committee are as follows: (i) to make recommendations to the Board on the appointment, re-appointment and dismissal of the external auditor; (ii) to review the financial information of the Company; (iii) to review the financial controls, risk management and internal control system of the Company; (iv) to review the operation, financial and accounting policies and practices of the Company and its subsidiaries as well as its consolidated affiliated entities; and (v) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

For the year ended 31 December 2023, three meetings of the Audit Committee were held. A summary of work of the Audit Committee during the year is set out below:

- Considered the annual results announcement and annual report of 2022;
- Considered the environmental, social and governance report of 2022;
- Considered the internal control and audit assessment report of 2022;
- Considered the Corporate Governance Report of 2022;
- Considered the financial accounts of 2022;
- Considered the financial budgets of 2023;
- Considered the interim results announcement and interim report of 2023;
- Considered the audit plan of 2023.

For the year ended 31 December 2023, the Audit Committee also met the external auditor three times without the presence of the executive Directors to discuss matters relating to its audit fees, any issue arising from the audit and any other matters the auditor may wish to raise. All members of the Audit Committee attended these meetings. The Board has not taken any different view from that of the Audit Committee regarding the re-appointment of the external auditor.

REMUNERATION COMMITTEE

The Remuneration Committee consists of two independent non-executive Directors and one non-executive Director, namely Ms. Ko Wing Yan Samantha, Mr. Wang Jinqiao and Mr. Xie Deren. Ms. Ko Wing Yan Samantha is the chairwoman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting than those set out in the CG Code.

The primary duties of the Remuneration Committee are as follows: (i) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) to make recommendations to the Board on the remuneration packages of executive Directors and senior management of the Company; (iii) to consider the level of remuneration required to attract and retain Directors to run the Company successfully; (iv) to ensure that no Director or any of their associates is involved in deciding their own remuneration; and (v) to review and/or approve the matters referred to Chapter 17 of the Listing Rules in relation to the share plan.

For the year ended 31 December 2023, two meetings of the Remuneration Committee were held. All members of the Remuneration Committee attended these meetings. A summary of work of the Remuneration Committee during the year is set out below:

- Considered the remuneration of the non-executive Directors;
- Considered the remuneration of the executive Directors; and
- Considered the remuneration of the independent non-executive Directors.

The Group's remuneration policy is structured to attract and retain high quality staff and to enable smooth operation. The Group offered competitive remuneration packages which considered factors such as corporate result, individual capability and performance, salaries paid by comparable companies, time commitment, responsibilities and employment conditions. The remuneration packages are subject to review on a regular basis.

In accordance with code provision E.1.5 of the CG Code, the band of emoluments (excluding share-based payments) paid to senior management for the year ended 31 December 2023 is as follows:

Emolument band (RMB)	**Number of individuals**
0 to 2,000,000	1
2,000,000 to 4,000,000	3

Details of Directors' emoluments and five highest paid individuals, which are disclosable under Appendix D2 to the Listing Rules, are set out in Note 8 and Note 43 to the audited financial statements of this annual report.

NOMINATION COMMITTEE

The Nomination Committee consists of two independent non-executive Directors and one non-executive Director, namely Dr. Kai-Fu Lee, Ms. Ko Wing Yan Samantha and Ms. Jin Keyu. Dr. Kai-Fu Lee is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The primary duties of the Nomination Committee are as follows: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy; (ii) to identify individuals suitably qualified as potential Directors (including advising whether such individuals will bring knowledge, skills and experience to the Board, and how they will promote the diversity of the Board), and select or make recommendations to the Board on the selection of individuals nominated for directorships pursuant to the nomination policies of the Company; (iii) assess the independence of independent non-executive Directors; and (iv) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy as stated below. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy as stated below that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee conducts extensive searches for candidates after considering the Company's requirements for Directors. With the consent of the nominees for his/her nomination, a meeting of the Nomination Committee will be convened to examine the qualifications of the shortlisted nominees based on the terms for appointment of Directors in accordance with the requirements of the Company Laws of the People's Republic of China and the Listing Rules, and to recommend the candidates and furnish the relevant information to the Board.

For the year ended 31 December 2023, the Nomination Committee did not hold meeting.

BOARD OF DIRECTORS' INDEPENDENCE EVALUATION

The Company has established a Board Independence Evaluation Mechanism ("**Mechanism**") which sets out the processes and procedures to ensure a strong independent element on the Board, aiming to allow the Board to effectively exercise independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximize strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Mechanism, the Board will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement.

All Directors have completed the Board independence evaluation in 2023 using individual questionnaires supplemented by individual interviews. The Board has reviewed the implementation and effectiveness of the Mechanism and the results were satisfactory.

BOARD AND EMPLOYEE DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced and diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to knowledge, skills, professional experience, gender, age, cultural and educational background, ethnicity, length of service and any other factors that the Board may consider appropriate from time to time taking into account the Company's business model and specific needs.

The Board of Directors consists of seven Directors with a balanced mix of knowledge and skills and a balanced age distribution, with knowledge and experience in the fields of computing, business administration, software engineering, finance and economics. Since the 1st session of the Board on 14 May 2021, the proportion of female Directors to the total number of Directors has been maintained at 28.6%, meeting the target figure of gender diversity on the Board of Directors. The Company values the importance and benefits of gender diversity on the Board. The Company's nomination and diversity policies can ensure that the Board will have potential successors to continue the existed gender diversity on the Board. At the same time, the Company has taken and will continue to take steps to promote gender diversity at all levels of the Company.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

At present, the composition of the Board is in compliance with the gender diversity requirements of the Board under the Listing Rules and is in line with the Company's nomination policy and diversity policy. The Nomination Committee will review the Board diversity policy (if appropriate) to ensure its effectiveness.

Details of the Group's employees are set out in the section headed "Directors, Supervisors, Senior Management and Employees – Employees and Remuneration Policies" on page 89 in this annual report. As at 31 December 2023, among total employees of the Group (including senior management), approximately 73.2% were male and approximately 26.8% were female. The Company recognizes and embraces the benefits of having a diverse team and promotes diversification whenever practicable. The Company targets to have both genders at all levels of its employees and strives to increase the proportion of female members in all employees (including senior management) to 28% within the next 4 years. The Group's recruitment process will mainly consider the aspects of educational background, professional qualifications, skills, knowledge and industry experiences of candidates, and apply the principle of appointments based on merits with reference to the diversity policy to mitigate factors or circumstances which make achieving gender diversity across workforce (including senior management) more challenging or less relevant.

DIRECTOR NOMINATION POLICY

The ultimate responsibility for the selection and appointment of Directors rests with the Board.

The Company has adopted the Director Nomination Policy, which sets out the selection criteria and process for the nomination and appointment of Directors and the succession planning considerations, so as to ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to business operations of the Company.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Achievements and experience in related industries and other professional qualifications related to the businesses of the Company;
- Commitment for responsibilities of the Board in respect of available time and relevant interest;
- Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
- Potential contributions that proposed candidate, can bring to the Board; and
- A succession plan for the Board.

The Nomination Committee of the Board will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision A.2.1 of the CG Code.

The Board will review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness.

Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed an authorization and approval mechanism that is suitable for the organizational structure and defined authority for implementation by key business processes and office functions, including project management, sales, financial reporting, human resources and information technology.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

The Board will cautiously review any material risk related to significant business decisions before making or approving such decisions.

Each department head and senior management of the Group monitor daily operations and any associated operational risks of the Group. They are also responsible for identifying and assessing potential market risks related to changes in macroeconomic environment and movements in market variables and report irregularities in connection with operational and market risks to the executive Directors for formulating policies to mitigate these risks.

The Internal Audit Department of the Company is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems and simultaneously examining key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, through the Audit Committee, has continuously monitored and annually reviewed the adequacy and effectiveness of the Group's risk management and internal control systems (including financial, operational and compliance controls).

The Group has appointed Somerley Capital Limited as compliance adviser of the Company in compliance with the Listing Rules and appointed a PRC legal adviser to advise us on PRC laws and regulations related to the Group's business operations.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2023.

The Company has conducted an annual review on the risk management and internal control systems during the Reporting Period. The scope of annual review covered each and every key aspect of the control systems, including financial controls, operational controls and compliance controls, so as to ensure the sufficiency of resources, staff qualifications and experiences, their training programs and relevant resources for accounting, internal audit and financial reporting functions. Based on the above review, we considered that such systems for the year ended 31 December 2023 were effective and adequate.

Whistle-blowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. As of 31 December 2023, we have not received such reports in any forms.

The Internal Audit Department of the Company conducts independent and objective confirmation and provides consulting services in respect of the appropriateness, compliance and effectiveness of the Company's business activities, internal controls and risk management by applying systematic and standardized auditing procedures and methods. The Internal Audit Department also assists the Company in improving the effectiveness of corporate governance, risk management and internal controls, with an aim to increasing its corporate value, improving its operations, and promoting its sustainable and healthy development as well as contributing to the achievement of its strategic objectives.

During the Reporting Period, the Internal Audit Department of the Company focused on the audits on segments such as recognition of sales revenue, research and development projects management, capital management and human resources management, and provided specific guidance on problems identified to ensure the effectiveness of the internal audit function. The Internal Audit Department made improvement recommendations in respect of its findings in the course of the audits and requested the management of the Company to undertake and to confirm the improvement plans, methods and timeline. In 2024, the Internal Audit Department will complete the planned audit works, and monitor the status of the implementation of the audit recommendations last year to ensure the execution of the relevant improvement plans.

The Company carried out comprehensive risk management to achieve the following objectives: (i) to ensure that risks are kept within tolerable limits that are appropriate to the overall objective; (ii) to ensure real and reliable information communication internally and externally, especially that between the Company and the Shareholders, in respect of, among other things, the preparation and representation of truthful and reliable financial reports; (iii) to ensure compliance with relevant laws and regulations; (iv) to ensure the implementation of the Company's relevant rules and regulations and major measures taken to achieve business objectives and ensure the effectiveness of management, to improve the efficiency and effectiveness of business activities, and reduce uncertainty in achieving business objectives; (v) to ensure that a crisis management plan is in place for subsequent management upon occurrence of various significant risks and to ensure that the Company is free of significant loss arising from catastrophic risks or human error.

All relevant departments and business units of the Company shall conduct self-examinations and inspection according to implementation plan of risk management work, discover defects and improve them in a timely manner, and proactively report to the Internal Control Department of the Company. The Internal Control Department of the Company will verifies the implementation and effectiveness of risk management work of all departments and business units by ways of consultation and examine, evaluates risk management strategies according to relevant management requirements, evaluates risk management solutions of cross-departments and business units, and puts forward suggestions for adjustment or improvement.

The Company has formulated its information disclosure policy and acknowledged its responsibilities under the Listing Rules and the SFO and the major principle that any inside information must be announced on a timely basis. The Company has formed comprehensive and proper procedures and internal control measures for internal processing and announcement of information to ensure the disclosure of relevant information to its shareholders and the regulatory authorities in a timely, accurate and appropriate manner. In addition, the Internal Audit Department of the Company assists in continuously monitoring the implementation of the above policy by the Company, and reports to the Board and the Audit Committee in a timely manner in case that any serious deficiencies in internal control has been identified, ensuring that immediate remedial actions are taken.

DIVIDEND POLICY

The Company did not declare or distribute any dividend to our Shareholders during the Reporting Period. However, we may distribute dividends in the future by way of cash or by other means that we consider appropriate. Pursuant to the Articles of Association, our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. The Company may distribute dividends in the form of cash, shares or a combination of cash and shares. As long as it is in profit for the year and has positive accumulative undistributed profits, the Company distributes cash dividends. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, applicable PRC laws and approval by our Shareholders. Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends should be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2023.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 98 to 107.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2023 is set out below:

Service Category	**Amount (RMB'000)**
Audit Services	5,350
Non-audit Services	1,300
Total	**6,650**

During the Reporting Period, non-audit services mainly comprised tax advisory, financial due diligence and services related to environmental, social and governance report. Details of remuneration paid or payable are set out in Note 7 of the financial statements.

JOINT COMPANY SECRETARIES

During the Reporting Period, Mr. Xiao Lei ("**Mr. Xiao**") and Ms. Kwan Sau In ("**Ms. Kwan**") are the Joint Company Secretaries of the Company. For the year ended 31 December 2023, Mr. Xiao and Ms. Kwan have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

On 30 January 2024, Mr. Xiao resigned as the Joint Company Secretary of the Company due to his personal work arrangement and Ms. Lv Hongyu ("**Ms. Lv**") was appointed as the Joint Company Secretary of the Company on the same day. Ms. Kwan will continue to serve as another Joint Company Secretary. Ms. Kwan is a manager of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. The biographical details of Ms. Lv and Ms. Kwan are set out in the section headed "Directors, Supervisors, Senior Management and Employees" on pages 80 to 97 in this annual report.

All Directors have access to the advice and services of the Joint Company Secretaries on corporate governance and board practices and matters. During the Reporting Period, Mr. Xiao was designated as the primary contact person of the Company, and since 30 January 2024, Ms. Lv has been designated as the primary contact person at the Company which would work and communicate with Ms. Kwan on the Company's corporate governance and secretarial and administrative matters.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Hong Kong Stock Exchange after each general meeting.

Convening an extraordinary general meeting and putting forward proposals at general meetings

Pursuant to Article 64 of the Articles of Association, two or more Shareholders who individually or together hold 10% or more of the voting shares at the proposed meeting may make a proposal to the Board of Directors on holding an extraordinary general meeting or class meeting and add resolutions to the meeting agenda by signing one or several written requests with same content in same format and define the meeting agenda. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of shares held shall be calculated as of the date when the written request was put forward by the Shareholders. If the Board fails to issue a notice of meeting within 30 days after receipt of the aforesaid written request, the Shareholders tendering the said request may request the Supervisory Committee to convene an extraordinary general meeting or class meeting. If the Supervisory Committee fails to issue a notice of meeting within 30 days after receipt of the aforesaid written request, the Shareholders individually or jointly holding more than 10% of shares with voting rights at the meeting to be convened for more than 90 consecutive days may by themselves convene a meeting within 4 months after the Board receives the said request, and the convening procedure shall to the extent possible be the same as the procedure by which the Board convenes the general meeting.

Pursuant to Article 65 of the Articles of Association, the expenses necessary for holding the shareholders' general meeting convened by the Supervisory Committee or Shareholders shall be borne by the Company.

Pursuant to Article 67 of the Articles of Association, Shareholders individually or jointly holding more than 3% of the shares of the Company may propose and submit new provisional resolutions in writing to the convener ten days prior to the general meeting. The convener of the general meeting shall issue a supplemental notice of general meeting to other Shareholders within two days after the receipt of such resolutions and incorporate the matters falling within the scope of duties of the general meeting into the agenda of such meeting for the consideration.

Putting forward enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may also make enquiries to the Board at the general meeting of the Company. In addition, Shareholders can contact Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, if they have any enquiries about their shareholdings and entitlements to dividend.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Room 501, Block A, Haier International Plaza, No. 939 Zhenwu Road, Economic Development Zone, Jimo District, Qingdao, Shandong, PRC

Tel: (86) 1082169566

Email: ir@ainnovation.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meetings, Directors or their proxies (as appropriate) are available to meet Shareholders and answer their enquiries.

CHANGE IN CONSTITUTIONAL DOCUMENTS

Shareholders approved the amendments to the Articles of Association at the annual general meeting held on 12 May 2023. The relevant amendments mainly reflect the changes in the total number of issued shares and registered capital of the Company after the cancellation of repurchased shares. The amendments to the Articles of Association took effect from 12 May 2023.

For the full text of the Amended Articles of Association, please refer to the website of Hong Kong Stock Exchange (https://www.hkexnews.hk) and the website of the Company (https://www.ainnovation.com).

COMMUNICATION POLICY RELATING TO SHAREHOLDERS

The Company has established the shareholder communication policy, which is reviewed annually to ensure its effectiveness and has been reviewed and confirmed to be effective during 2023. The Company attaches great importance to the opinions and suggestions of shareholders, actively engaging in investor relations activities to maintain communication with shareholders, regularly having a fair communication with them in time, on major issues through interim reports, annual reports, announcements and circulars to meet the reasonable needs of shareholders in a timely manner.

Directors, Supervisors, Senior Management and Employees

MEMBERS OF THE BOARD

Name	Position in the Company	Date of appointment as Director
Executive Director		
Mr. Xu Hui	Executive Director and Chief Executive Officer	23 April 2018
Non-executive Directors		
Dr. Kai-Fu Lee	Chairman and non-executive Director	6 February 2018
Mr. Wang Hua	Non-executive Director	6 February 2018
Mr. Wang Jinqiao	Non-executive Director	27 September 2022
Independent non-executive Directors		
Mr. Xie Deren	Independent non-executive Director	14 May 2021
Ms. Ko Wing Yan Samantha	Independent non-executive Director	14 May 2021
Ms. Jin Keyu	Independent non-executive Director	16 November 2021

Mr. Xu Hui (徐輝), aged 51, is the co-founder of our Group and has served as the Chief Executive Officer since our Company's incorporation in February 2018 and an executive Director since April 2018. Mr. Xu has more than 20 years of experience in AI-related industry. Mr. Xu held various senior leadership capacities including serving as the General Manager of the Insurance and Securities Division, the Deputy General Manager of Banking Division in China Region of Financial Services Sector; the General Manager of Services and Products Line Group and Alliances in Greater China Region and the General Manager of Geography Expansion in China Region of Global Technology Services Sector in IBM from November 1996 to November 2009, responsible for sales management of AI software and solutions covering IT infrastructure, cloud computing, data storage, IT operation and maintenance for manufacturing and financial industry; the Vice President in Greater China Region and General Manager in East and Central Region in SAP from October 2009 to February 2013, responsible for sales management of AI software and solutions covering intelligent integrated information management platform and IT consulting services for manufacturing industry; the Vice President and General Manager of Microsoft Enterprise & Partner Group (EPG) in Greater China Region, the General Manager of Customer Service and Support (CSS) in Greater China Region and Cloud Executive Sponsor in Asia Pacific Region from March 2013 to November 2016, responsible for sales and technical management of AI software and solutions covering enterprise O2O intelligent transfer, cloud computing and big data analytics; and the Vice President of Wanda Internet Technology Group from November 2016 to January 2018, primarily engaged in providing full-chain business management services of digitalized and intelligent transformation solutions covering cloud computing, big data analytics, intelligent marketing and operations, intelligent supply chains and IOT. He has been an independent non-executive director of Honma Golf Limited, a company listed on the Hong Kong Stock Exchange (stock code: 6858), since September 2016. As of the Latest Practicable Date, Mr. Xu also holds directorships in certain subsidiaries.

Mr. Xu obtained his bachelor's degree in electronic engineering from Shanghai Jiaotong University (上海交通大學) in Shanghai, the PRC in July 1995, and his EMBA degree from Peking University (北京大學) in Beijing, the PRC in January 2007.

Dr. Kai-Fu Lee (李開復), aged 63, has served as the Chairman and a non-executive Director since February 2018. He is the Chairman of the Nomination Committee. Dr. Kai-Fu Lee has more than 30 years of experience in AI-related industry. He served as a researcher and an assistant professor at school of computer science of Carnegie Mellon University from 1988 to 1991; successively holding several positions including a Vice President of Apple Inc., a company listed on NASDAQ (stock code: AAPL), from 1990 to 1996; the Managing Director of Microsoft Research China and the Corporate Vice President of Natural Interactive Services Division of Microsoft Corporation, a company listed on NASDAQ (stock code: MSFT), from 1998 to 2005, where he acted as the Dean of Microsoft Research Asia, which was established in 1998 and one of the world's top research labs which nurtured a large number of top AI talents; the President in Greater China Region of Google Inc., a company listed on NASDAQ (stock code: GOOG), from 2005 to 2009; the Chairman and Chief Executive Officer of Sinovation Ventures Group, a leading venture capital firm, from 2009 to March 2023, and director and chief executive officer since 28 March 2023. Dr. Kai-Fu Lee is the Co-Chair of Artificial Intelligence Council for World Economic Forum Center for the Fourth Industrial Revolution and recognized as Times 100 in 2013.

Dr. Kai-Fu Lee served as an independent non-executive director of Shangri-La Asia Limited (香格里拉(亞洲)有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 069), from November 2015 to June 2019; an independent director of LightInTheBox Holding Co., Ltd., a company listed on the New York Stock Exchange (stock code: LITB), from June 2013 to July 2019; an independent non-executive director of Hon Hai Precision Industry Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 2317), from July 2016 to June 2019; a non-executive director of Meitu, Inc. (美圖公司), a company listed on the Hong Kong Stock Exchange (stock code: 1357), since August 2016; and an independent non-executive director of Fosun International Limited (復星國際有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 656), since March 2017.

Dr. Kai-Fu Lee obtained his bachelor's degree in computer science from Columbia University in New York, the United States in June 1983, and his doctor's degree in computer science from Carnegie Mellon University in Pennsylvania, the United States in April 1988.

Mr. Wang Hua (汪華), aged 47, has served as a non-executive Director since February 2018. He is a member of the Audit Committee. Mr. Wang served as the General Manager of Shanghai Yinda Technology Industry Co., Ltd. (上海音達科技事業有限公司) from December 2001 to August 2004; the Strategic Partner and Development Manager in Google Information Technology (China) Co., Ltd. (谷歌信息技術 (中國) 有限公司) from September 2006 to October 2009; and a partner of Sinovation Ventures Group since October 2009. He has served as an independent non-executive director of Maoyan Entertainment (貓眼娛樂), a company listed on the Hong Kong Stock Exchange (stock code: 1896), since January 2019.

Mr. Wang obtained his master's degree in business administration from Stanford University in California, the United States in June 2006.

Mr. Wang Jinqiao (王金橋), aged 46, has served as a non-executive Director since September 2022. He is currently a member of the Remuneration Committee. Mr. Wang has served as the deputy chief engineer, researcher and doctoral advisor of the Institute of Automation of the Chinese Academy of Sciences at the National Laboratory of Pattern Recognition of the Institute of Automation of the Chinese Academy of Sciences since June 2008. He is also the deputy executive director of the Zidong Taichu Large Model Center, a professor at the School of Artificial Intelligence at the University of Chinese Academy of Sciences, the secretary general of the Multimodal Artificial Intelligence Industry Alliance and the vice chairman of the Technology Innovation Working Committee of the China Association of Technology Entrepreneurship. Mr. Wang has been engaged in applied basic research on video analysis and retrieval, multimodal large model, object detection and identification, behavioral analysis and understanding, and industrial visual inspection. At the same time, he participates in relevant theoretical research on pattern recognition and machine learning. Mr. Wang has published over 300 articles through world-class and top-tier journals and conferences such as the IEEE TPAMI, TIP, TNNLS, ICCV, CVPR, NeurIPS, AAAI, IJCAI and ECCV, which include more than 70 articles in international journals and 220 articles at conferences worldwide. His works have been cited 5787 times on Google Scholar, with an H-index of 34. Mr. Wang has developed five national standards and obtained patents for 36 inventions. He has won the championship in 20 international visual computing competitions, and various honorary titles including "Beijing Leading High-caliber Talent", "Guangzhou Leading Innovation Team" and "Shandong Province Taishan Leading Talent". Besides, he has been awarded the Second Prize of the Wu Wenjun AI Science and Technology Progress Award, the China Invention and Innovation Silver Award and the Second Prize of the Chinese Academy of Sciences Technology Achievement Transformation Award. Mr. Wang is a member of the procedure committee and the area chair of international conferences such as the ICME, ACM Multimedia and NeurIPS. In addition, he is the reviewer of international journals and conferences including the IEEE TPAMI, TIP, TNNLS, ICCV, CVPR, NeurIPS, AAAI, IJCAI and ECCV.

Mr. Wang obtained a doctoral degree in pattern recognition and intelligent system from the Institute of Automation of the Chinese Academy of Sciences in 2008.

Mr. Xie Deren (謝德仁), aged 52, has served as an independent non-executive Director since May 2021. He is currently the chairman of the audit committee and a member of the remuneration committee. Mr. Xie successively served as a lecturer and an associate professor, and served as a professor since December 2005, in the School of Economics and Management, Tsinghua University (清華大學經濟管理學院). Mr. Xie is now a council member of Accounting Society of China (中國會計學會) and the vice Chairman of Enterprise Accounting Standards Committee of Accounting Society of China. He was a member of the 17th Issuance Review Committee of the China Securities Regulatory Commission (中國證監會發行審核委員會) from September 2017 to February 2019. He was a member of the First, Second and Third Advisory Committee for Enterprises Accounting Standards of the Ministry of Finance of the PRC (中國財政部) from August 2016 to August 2023. Mr. Xie has been a member of the Auditing Standards Committee of the Chinese Institute of Certified Public Accountants since December 2023.

Since October 2020, Mr. Xie has been an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Beijing Jingwei Hirain Technologies Co., Ltd. (北京經緯恒潤科技股份有限公司), which was listed on the Shanghai Stock Exchange (stock code: 688326) in April 2022. He has been serving as an independent non-executive director, the chairman of audit committee and a member of remuneration committee of Xiamen Bank Co., Ltd. (廈門銀行股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601187), since January 2021. He has been serving as an independent non-executive director, the chairman of audit and risk management committee and a member of remuneration and appraisal committee of China Electronics Engineering Design Institute Co., Ltd. (中國電子工程設計院股份有限公司) since November 2023. In addition, Mr. Xie served as an independent non-executive director, and the chairman of the audit committee and remuneration committee of HengTai Securities Co., Ltd. (恒泰證券股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1476), from February 2020 to September 2023; and an independent non-executive director of Liaoning Chengda Co., Ltd. (遼寧成大股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600739), from August 2021 to November 2021.

Mr. Xie obtained his bachelor's degree and doctor's degree in accounting from Xiamen University (廈門大學) in Xiamen, the PRC in July 1993 and July 1998, respectively.

Ms. Ko Wing Yan Samantha (高穎欣), aged 45, has served as an independent non-executive Director since May 2021. She is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Ms. Ko served as an associate in London office of J.P. Morgan from January 2003 to June 2005; an associate in Hong Kong office of Morgan Stanley from August 2005 to August 2006; a director in global market — structured credit and fund solutions department of HSBC from September 2006 to July 2009; an executive director of Concord New Energy Group Limited (formerly known as China WindPower Group Limited), a company listed on the Hong Kong Stock Exchange (stock code: 182), from October 2009 to September 2014; an executive director of Yunfeng Financial Group Limited (formerly known as REORIENT GROUP LIMITED), a company listed on the Hong Kong Stock Exchange (stock code: 376), from August 2011 to November 2015; an executive director of BOE Varitronix Limited, a company listed on the Hong Kong Stock Exchange (stock code: 710), since October 2014; an executive director of Neon Group Limited (formerly known as Cityneon Holdings Limited), a company previously listed on the Singapore Exchange Limited (stock code: 5HJ) since April 2019; and a consultant of OSL Group Limited, a company listed on the Hong Kong Stock Exchange (stock code: 863), from January 2020 to December 2023.

Ms. Ko obtained her bachelor's degree in economics and mathematics from Mount Holyoke College in Massachusetts, the United States in May 2001, and her master's degree in finance from Imperial College London in London, England in November 2002.

Ms. Jin Keyu (金刻羽), aged 42, has served as an independent non-executive Director since November 2021. She is a member of the Nomination Committee. Ms. Jin served as an assistant professor from September 2009 to October 2013, and an associate professor since October 2013 in London School of Economics. She has served as a tenured professor since 2011 in London School of Economics. Ms. Jin has served as a non-executive director of Compagnie Financière Richemont SA, a company listed on the Johannesburg Stock Exchange (stock code: CFR), since September 2017.

Ms. Jin obtained her bachelor's degree in economics and doctorate's degree in economics from Harvard University in Massachusetts, the United States in July 2004 and July 2009, respectively.

MEMBERS OF THE SUPERVISORY COMMITTEE

Name	Position in the Company	Date of appointment as Supervisor
Ms. Lin Ying	Supervisor	6 February 2018
Ms. Duan Chengjin	Supervisor	27 September 2022
Ms. Gao Lingyan(1)	Employee Representative Supervisor	30 January 2024

(1) Due to job changes, Mr. Nie Mingming resigned as the employee representative supervisor of the Company with effect from 30 January 2024. Ms. Gao Lingyan has been appointed as the employee representative supervisor of the Company to replace Mr. Nie Mingming with effect from 30 January 2024. Please refer to the announcement of the Company dated 30 January 2024 for details of change of employee representative supervisor of the Company.

Ms. Lin Ying (林鶯), aged 45, has served as a Supervisor since February 2018. Ms. Lin served as a director and the Legal Head of Sinovation Ventures Group since 2011.

Ms. Lin obtained her bachelor's degree in economics, master's degree in law and doctor's degree in law from University of International Business and Economics (對外經濟貿易大學) in Beijing, the PRC in July 2002, June 2005 and October 2015, respectively.

Ms. Duan Chengjin (段成錦), aged 54, has served as the managing director of Shanghai Lingyue Investment Management Co., Ltd. since 2017. She was a director of Beijing Meilin Lianhu Investment Management Co., Ltd. from 2015 to 2017, an executive director of UBS Group from 2010 to 2015, a director of Bank of America Merrill Lynch from 2004 to 2010, and a manager of Lone Star Funds from 2002 to 2004.

Ms. Duan obtained a bachelor's degree in English from Tsinghua University in 1993 and a master's degree in business administration from Pepperdine University in the United States in 2001.

Ms. Gao Lingyan (高凌燕), aged 47, joined the Company in April 2018 and has served as the vice president of the Company since July 2020. Ms. Gao served as the head of marketing for industry markets and innovative products in Greater China of SAP (China) Co., Ltd. from October 2006 to March 2018; she served as the marketing public relations director of Yonyou Network Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600588) from May 2001 to September 2006; before that, she also served as the research and development manager of Beijing Kelihua Network Technology Co., Ltd. (北京科利華網絡技術有限責任公司).

Ms. Gao obtained a bachelor's degree in economics from Beijing Jiaotong University and is studying doctoral degree in DBA management at Golden Gate University in the United States; she was elected as a representative of the Qingdao Municipal People's Congress and a member of the Finance and Economics Committee in January 2022;

SENIOR MANAGEMENT

Name	Position in the Company	Date of appointment as senior management
Mr. Xu Hui	Executive Director and Chief Executive Officer	26 February 2018
Mr. He Tao	Chief Revenue Officer	2 April 2018
Mr. Zhang Fa'en	Chief Technology Officer	18 May 2018
Ms. Lv Hongyu	Chief Capital Officer, Secretary to the Board and Joint Company Secretary	30 January 2024
Ms. Yu Jin	Chief Financial Officer	30 January 2024

Mr. Xu Hui is our Chief Executive Officer. For the biographical details of Mr. Xu Hui, please refer to "Members of the Board".

Mr. He Tao (何濤), aged 54, has joined the Company and served as the general manager for Western China of the Company since April 2018 and our Chief Revenue Officer since May 2021. Mr. He has more than 20 years of experience in management, including eight years of AI-related management experience. He successively held several positions of Wanda Group (萬達集團) including the General Manager of Fuzhou branch of Wanda Department Stores (萬達百貨) from July 2007 to May 2013; General Manager for Sichuan and Chongqing branches of Shanghai Red Star Macalline Business Management (Group) Co., Ltd. (上海紅星美凱龍商業管理(集團) 有限公司) from June 2013 to July 2015 where he introduced the O2O business model and digitalized marketing tools; the General Manager of Chongqing Zhida Tianya Business Management Co., Ltd. (重慶智達天雅商業管理有限公司) from August 2015 to January 2017; the General Manager of Southern China of Wanda Information Technology Co., Ltd. (萬達網絡科技有限公司) from March 2017 to March 2018 where he led the digitalized upgrading of offline retail stores. As of the Latest Practicable Date, Mr. He Tao also serves as the chairman and executive director of certain subsidiaries.

Mr. He obtained his bachelor's degree in Russian from Sichuan International Studies University (四川外國語大學) in Sichuan, the PRC in July 1994, and completed the master courses in industrial information and enterprise management from Sichuan Academy of Social Sciences (四川省社會科學院) in Sichuan, the PRC in August 1997.

Mr. Zhang Fa'en (張發恩), aged 43, has served as our Chief Technology Officer since May 2018. Mr. Zhang has approximately 15 years of experience in software, big-data, machine-learning, deep-learning and artificial intelligence technology research, development and management, including serving as a software development engineer in Microsoft China (微軟中國有限公司) from July 2008; a TechLead responsible for main projects of Google Maps, Google Search and Google Knowledge Graph in Google Information Technology (China) Co., Ltd. (谷歌信息技術(中國)有限公司) from December 2010 to December 2015; and the Technical-Committee-Chairman and the Chief-Architect of Baidu AI Cloud in Baidu China (百度在線網絡技術(北京)有限公司) from December 2015 to May 2018, where he led the development of a series of AI services and platforms, including Baidu Recommender System, Baidu ABC Appliance, Baidu BDL (Deep Learning Platform), Baidu Message System and Baidu MapReduce. He is currently an Honorary Professor of University of Nottingham Ningbo China (寧波諾丁漢大學). Mr. Zhang Fa'en currently also holds directorships in certain subsidiaries.

Mr. Zhang obtained his bachelor' s degree in software engineering from Jilin University (吉林大學) in Jilin, the PRC in July 2005, and his master's degree in computer software and theory in the University of Chinese Academy of Sciences(中國科學院大学) in Beijing, the PRC in July 2008. During his study and work, he was awarded 9 US patents, 2 Japanese patents, and more than 100 Chinese patents, and has published many world-class academic conferences and journal papers.

Ms. Lv Hongyu (呂虹燏), aged 42, joined the Company in January 2024. From 30 January 2024, she served as the Chief Capital Officer, the Secretary to the Board and the Joint Company Secretary of the Company. From October 2013 to January 2024, Ms. Lv successively served as Director General of Company Secretary Office, the Secretary to the Board and the Company Secretary in Kingsoft Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 3888). From July 2006 to October 2013, she served as legal counsel to AviChina Industry & Technology Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2357). Previously, she also worked in several law firms.

Ms. Lv obtained a bachelor's degree in law and a master's degree in economic law from China University of Political Science and Law. Ms. Lv is a Fellow of both The Chartered Governance Institute and The Hong Kong Chartered Governance Institute, holding Chartered Secretary and Chartered Governance Professional dual designations. She also holds the Chinese legal professional qualification certificate and the board secretary qualification granted by the Shanghai Stock Exchange.

Ms. Yu Jin (余瑾), aged 40, joined the Company in October 2020 and has been an internal control and audit officer of the Company since October 2020, the joint financial officer of the Company since November 2022 and the Chief Financial Officer of the Company since 30 January 2024. Ms. Yu has served in PricewaterhouseCoopers Zhong Tian LLP as the senior manager of audit department from September 2009 to October 2020. As of the Latest Practicable Date, Ms. Yu Jin also served as a director and supervisor of the subsidiaries.

Ms. Yu obtained a Master's degree in International Business and Economics from the University of International Business and Economics in June 2009.

JOINT COMPANY SECRETARIES

Ms. Lv Hongyu (呂虹燏) has served as our Joint Company Secretary since 30 January 2024. For the biographical details of Ms. Lv Hongyu, please refer to "Senior Management".

Ms. Kwan Sau In (關秀妍) has served as our Joint Company Secretary since September 2022. Ms. Kwan is a manager of Corporate Services of Tricor Services Limited and has over 10 years experiences in Company Secretary and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Kwan is an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute and holds a master degree in laws (Chinese laws) and a bachelor's degree of business administration in corporate management.

CHANGES IN THE APPOINTMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Nie Mingming resigned as the employee representative supervisor of the Company due to job changes and ceased to perform relevant duties with effect from 30 January 2024.

Ms. Gao Lingyan was elected by the Company as the employee representative supervisor of the Company at the employee congress held on 30 January 2024.

Mr. Xiao Lei resigned as the Chief Financial Officer, the Secretary of the Board and the Joint Company Secretary of the Company due to his personal work arrangement and ceased to perform the relevant duties with effect from 30 January 2024.

Ms. Lv Hongyu was appointed as the Chief Capital Officer, the Secretary of the Board and the Joint Company Secretary of the Company on 30 January 2024.

Ms. Yu Jin was appointed as the Chief Financial Officer of the Company on 30 January 2024.

CHANGES TO INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed in this annual report, the Directors, Supervisors and senior management confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CURRENT POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHAREHOLDERS' COMPANIES DURING THE REPORTING PERIOD AND AS OF THE LATEST PRACTICABLE DATE

Name	Company name	Current position	Term commencing from
Mr. Kai-Fu Lee	Sinovation Ventures Group	Director and chief executive officer	2009
Mr. Wang Hua	Sinovation Ventures Group	Partner	2009
Ms. Lin Ying	Sinovation Ventures Group	Director and legal head	2011

EMPLOYEES AND REMUNERATION POLICIES

The Group is committed to promoting gender diversity. As at 31 December 2023, the Group had 1,051 employees, of which 769 were male and 282 were female. The Group integrates its human resources strategy with remuneration plans based on different job sequences to provide competitive salaries and incentives based on performance contributions to all employees. The Group also contributes to social security and provident funds for all employees in accordance with the law, and provides a comprehensive benefit plan including retirement schemes, supplementary medical insurance, accident insurance, annual health check and various subsidies.

EMPLOYEE TRAINING

Based on the Company's business goals and employee career development needs, the Group matches the corresponding capacity enhancement resources with employees at all levels and various career development stages. For all employees, we focus on cultivating workplace skills, and help them improve their professional quality and work efficiency through classroom learning and picture and text sharing; for new employees, we focus on cultivating corporate culture and company environment, efficient office and institutional processes, etc., through NEO (New Employee Orientation), partnership system, On Boarding newcomer introduction, etc., to help them successfully integrate in and become qualified Qizhi people (奇智人); for new managers and core employees, we focus on cultivating business ability, initial leadership and management experience, through classroom learning, IDP personal development plan, etc., to stimulate team momentum; for executives, we focus on cultivating business maturity, leadership, capital markets and strategic strength to promote organizational development.

EMPLOYEE INCENTIVE

Employee Incentive Scheme

The Group has adopted the Employee Incentive Scheme ("**Employee Incentive Scheme**") pursuant to the resolution of the general meeting of shareholders on 31 March 2021 as an amendment, restatement and consolidation of the previous versions of employee share incentive schemes adopted by the Group since 2018.

(1) Purpose

The purpose of the Employee Incentive Scheme is to motivate the management team, retain talent and promote the long-term sustainable development of the Company.

(2) Participant

The participants of the Employee Incentive Scheme (the "**Participants**") were selected by the administrator, Mr. Xu Hui (the "**Administrator**"), from among the senior management, existing employees and advisors of the Company or any other member of the Group.

(3) Total number of shares available for issue and the percentage of shares in issue as at the date of the annual report

The awards under the Employee Incentive Scheme entitle the Participants of the Employee Incentive Scheme to a conditional right to obtain interests in the Employee Incentive Platforms at the time of grant of the awards at the sole discretion of the Administrator of the Employee Incentive Scheme. Accordingly, the Company is not required to issue new shares in respect of the Employee Incentive Scheme.

(4) Maximum number of awards that may be granted to each Participant

The Company has not set a limit on the awards that may be granted to each Participant under the Employee Incentive Scheme.

(5) The period during which the grantee may exercise the options under the Employee Incentive Scheme

The Employee Incentive Scheme does not involve the granting of options by the Company to subscribe for new Shares.

(6) Vesting period for awards granted under the Employee Incentive Scheme

Subject to and in accordance with the restrictions and conditions of the Employee Incentive Scheme, the Administrator may, in its sole discretion, determine the un-restricted conditions and the un-restricted period (i.e., vesting conditions and vesting period), which generally range from one to four years and may vary among Participants.

A Participant shall not have any interest or right (including the right to receive dividends) in the awards prior to the date on which an award is vested on the Participants (the "**Vesting Date**"). No instructions shall be given by a Participant (including, without limitation, voting rights) in respect of the awards that have not been vested.

(7) The amount to be paid for the application or acceptance of an award and the period for payment or notification of payment

Upon the Administrator's decision to offer an award to any Participant, the Participant shall pay the amount required to be paid on the date of execution of the relevant agreement.

(8) Basis for determining the purchase price of the granted shares

Under the Employee Incentive Scheme, the shareholdings in the Company held by Employee Incentive Platforms are divided into equal shares ("**Restricted Shares**") on the basis of ten for every 18 shares held by it, with each Restricted Share corresponding to a purchase price of RMB0.1.

(9) Remaining validity period of the Employee Incentive Scheme

The provisions of the Employee Incentive Scheme shall be in full force and effect in all respects and the Employee Incentive Scheme shall remain in effect unless terminated in accordance with the relevant provisions of the Employee Incentive Scheme.

(10) Information on the granting of awards

Name or type of Participant	Grant date	Vesting period	Grant price (RMB/ Share)	Number of granted but not yet vested as at 1 January 2023 (shares)	Number of granted during the Reporting Period (shares)[1]	Number of vested during the Reporting Period (shares)	Number of cancelled during the Reporting Period (shares)	Number of lapsed during the Reporting Period (shares)	Number granted but not yet vested as at 31 December 2023 (shares)	Weighted average closing price of shares vested during the Reporting Period (HKD)
Directors	–	–	–	–	–	–	–	–	–	–
Supervisors	–	–	–	–	–	–	–	–	–	–
Five individuals whose total emoluments were the highest during the Reporting Period (in aggregate)	Granted from time to time during the term of the incentive scheme	Vesting periods ranges from 1 to 4 years and may vary among different Participants.	0.056	16,233,091	1,390,500	8,297,078	–	–	6,986,513	13.415
Other employees (in aggregate)	Granted from time to time during the term of the incentive scheme	Vesting periods ranges from 1 to 4 years and may vary among different Participants.	0.056	18,793,165	1,098,288	4,557,088	–	–	10,475,963	16.037
Total	–	–	–	35,026,256	2,488,788	12,854,166	–	–	17,462,476	–

Notes:

[1] For awards granted during the Reporting Period,

(1) Corresponding performance targets have been set for the vesting of awards granted during the Reporting Period, including annual performance appraisal targets and quarterly performance appraisal targets, and the vesting of the awards shall depend on the results of the appraisal. The performance targets may vary among different Participants;

(2) During the Reporting Period, no shares were granted to Directors or Supervisors. The closing prices of the shares granted to other people on the trading day before the grant date were as follows:

Name or type of Participant	Grant date	Closing prices on the trading day before the grant date (HKD)
Five individuals whose total emoluments were	18 May 2023	20.300
the highest during the Reporting Period (in aggregate)	23 May 2023	21.400
Other employees (in aggregate)	16 January 2023	23.450
	18 May 2023	20.300
	7 June 2023	23.500
	10 July 2023	17.820

(3) Details of the fair values of the awards on the grant date and the accounting standards and policies adopted were set out in Note 30 and Note 46.19 to the financial statements.

(4) "Number of grants made during the Reporting Period" was derived from the shares forfeited during the Reporting Period, and details of the shares forfeited during the Reporting Period are set out in Note 30 to the financial statements.

2023 Directors and Senior Management H Share Incentive Scheme

The Group has adopted the 2023 Directors and Senior Management H Share Incentive Scheme in accordance with the resolution of the general meeting of shareholders on 13 January 2023 ("**2023 Directors and Senior Management H Share Incentive Scheme**").

(1) Purpose

The purposes of the 2023 Directors and Senior Management H Share Incentive Scheme are: (i) to encourage, motivate and retain directors and employees who contribute to the Group's ongoing operations, development and long-term growth, and to enhance the Company's ability to attract new talents; and (ii) to send positive signals to the market and boost market confidence.

(2) Participant

Eligible employees who may participate in the 2023 Directors and Senior Management H Share Incentive Scheme include management personnel, including Directors (if any) and senior management of the Group, who play an important role in the operating results and future development of the Group and who comply with the laws and regulations and the rules of the Group. The Board or its authorized person may select participants (the "**Participant**") from time to time in accordance with the relevant provisions of the Company Law of the PRC, the Securities Law of the PRC and other applicable laws, regulations and regulatory documents and the Articles of Association of the Company and taking into account the actual situation of the Company, and subject to the provisions of the scheme, provide the Participants with incentive awards on such terms and conditions as the Board or its authorized person may determine from time to time during the term of the scheme.

(3) Total number of shares available for issue and the percentage of shares in issue as at the date of the annual report

Subject to the decision of the Board or its authorized person, the Company will transfer the necessary funds to the Trustee and instruct the Trustee to purchase H Shares at the then prevailing market price or at a specified price/price range, subject to the restrictions imposed by laws and regulations. Accordingly, the Company is not required to issue new shares in connection with the 2023 Directors and Senior Management H Share Incentive Scheme.

(4) Maximum number of awards that may be granted to each Participant

The Company has not set a limit on the awards that may be granted to each Participant under the 2023 Directors and Senior Management H Share Incentive Scheme.

(5) The period during which the grantee may exercise the options under the 2023 Directors and Senior Management H Share Incentive Scheme

The 2023 Directors and Senior Management H Share Incentive Scheme does not involve the granting of options by the Company to subscribe for new shares.

(6) Vesting period of awards granted under the 2023 Directors and Senior Management H Share Incentive Scheme

The Board or its authorized person may determine the criteria and conditions for vesting and the vesting period from time to time during the term of the 2023 Directors and Senior Management H Share Incentive Scheme, subject to compliance with all applicable laws, regulations and ordinances.

Unless otherwise specified in the notice of grant approved by the Board or its authorized person, the vesting date of the incentive shares granted under the 2023 Directors and Senior Management H Share Incentive Scheme shall be the earlier of (i) the date of the announcement of the Company's annual results with a positive adjusted net profit or loss. For the avoidance of doubt, if the period from the date of grant to the date of the announcement of the Company's annual results with a positive adjusted net profit or loss is less than 12 months, the date on which 12 months have elapsed since the date of grant shall apply; or (ii) the date on which 36 months have elapsed since the date of grant. If the vesting date is a non-business day, the vesting date shall be the first business day after the suspension or termination of trading of the H Shares.

(7) The amount to be paid for the application or acceptance of an award and the period for payment or notification of payment

The Participant shall receive the incentive shares by way of capital contribution from its own funds within five business days after the date of grant in accordance with the corresponding capital contribution amount calculated based on the grant price and the number of incentive shares accepted for grant.

(8) Basis for determining the purchase price of the granted shares

Unless otherwise determined by the Board or its authorized person or as otherwise specified in the notice of grant approved by it, the grant price of the incentive shares under the 2023 Directors and Senior Management H Share Incentive Scheme is 20% of the closing price of the H Shares of the Company on the date of grant of the incentive shares.

(9) Remaining validity period of the 2023 Directors and Senior Management H Share Incentive Scheme

Unless the 2023 Directors and Senior Management H Share Incentive Scheme is terminated earlier in accordance with the rules of the scheme, its valid period is 10 years from the date of adoption (i.e. 10 years from 13 January 2023) and no further award will be granted after the expiry of the incentive period, provided that so long as there are any incentive shares granted prior to the expiry of the 2023 Directors and Senior Management H Share Incentive Scheme which have not yet vested, 2023 Directors and Senior Management H Share Incentive Scheme will continue to be extended until the vesting of such incentive shares becomes effective.

(10) Information on the granting of awards

Name or type of Participant	Vesting period and performance targets	Grant price (HKD/share)	Number granted but not yet vested as at 1 January 2023 (shares)	Number of grants made during the Reporting Period (shares)[2]	Number of grants vested during the Reporting Period (shares)	Number of grants cancelled during the Reporting Period (shares)	Number of grants lapsed during the Reporting Period (shares)	Number granted but not yet vested as at 31 December 2023 (shares)	Weighted average closing price of shares vested during the Reporting Period (HKD)
Directors Xu Hui	The vesting date is the earlier of: (a) the date of the announcement of the Company's annual results with adjusted net profit or loss being positive, or, for the avoidance of doubt, the date of expiry of 12 months from the granting date if less than 12 months have elapsed from the granting date to the date of the announcement of the Company's annual results with adjusted net profit or loss being positive; (b) the expiry of 36 months from the granting date.	3.056	—	9,000,000	—	1,752,415	—	7,247,585	—
Xie Deren		3.056	—	1,333,338	—	519,346	—	813,992	—
Supervisors	—	—	—	—	—	—	—	—	—
Five individuals whose total emoluments were the highest during the Reporting Period (in aggregate) [1]	Same with Directors	3.056	—	13,333,334	—	4,617,242	—	8,716,092	—
Others (in aggregate)	Same with Directors	3.056	—	10,333,328	—	4,601,112	—	5,732,216	—
Total	—	—	—	25,000,000	—	9,737,700	—	15,262,300	—

Notes:

[1] The "Five individuals whose total emoluments were the highest during the Reporting Period (in aggregate)" include Mr. Xu Hui, a Director, and the "Total" only performs one sum calculation of the relevant number of Mr. Xu Hui.

[2] The "Number of grants made during the Reporting Period (shares)" refers to the number of incentives granted by the Company under the 2023 Directors and Senior Management H Share Incentive Scheme on 28 February 2023 to Participants, temporarily in accordance with the upper limit of the incentive scheme, of which,

(1) During the Reporting Period, no shares were granted to Supervisors. The closing price of the shares granted to other Participants on the trading day before the grant date was HKD 15.28;

(2) Details of the fair values of the awards on the grant date and the accounting standards and policies adopted were set out in Note 30 and Note 46.19 to the financial statements.

Pension Plan

The Group's employees in the PRC are entitled to participate in various housing provident fund, medical insurance and other social insurance schemes administered by the government. The Group makes monthly contributions to these funds at a certain percentage of the salaries of these employees (subject to certain caps). The Group's obligations in respect of these funds are limited to the annual contributions payable. Contributions to housing provident fund, health insurance and other social insurance are expensed as incurred. As of 31 December 2023, the Group does not have the matter referred to in paragraph 26(2) of Appendix D2 to the Listing Rules where an employer may use forfeited contributions under a defined contribution plan to reduce the level of existing contributions.

Independent Auditor's Report

To the Shareholders of Qingdao AInnovation Technology Group Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Qingdao AInnovation Technology Group Co., Ltd. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 108 to 214, comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards 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 International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Impairment assessment of trade receivables
- Impairment assessment of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to Notes 6 to the consolidated financial statements. During the year ended 31 December 2023, the Group's revenue represented income from the sales of integrated products and solutions of RMB1,632,358,000 and provision of data solution services of RMB118,687,000. The revenue of sales of integrated products and solutions are recognized at a point of time when the customers accept the products and solutions after the installation is complete or when the customers obtain the control of the products and solutions if no installation is required. For certain sales contracts, the revenue is recognized over time since the 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.	Our audit procedures performed on revenue recognition for the sale of integrated products and solutions and provision of data solution services included: • We understood and evaluated the relevant controls in respect of revenue recognition for the sales of integrated products and solutions and provision of data solution services, validated the key controls and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We reviewed, on a sample basis, the sales contracts with customers and identified the terms and conditions relating to the timing of transfer of controls of promised goods or services, to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards and whether the judgements made in revenue recognition would give rise to indicators of possible management bias;

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
The revenue of provision of data solution services are recognized over time as the performance obligation is satisfied over time with reference to the customers' usage of services to the satisfaction of the performance obligation of the projects. We focused our audit effort in this area due to the magnitude of revenue transactions and the variety of the relevant contract terms. Hence significant audit resources were allocated to audit this area.	• We tested, on a sample basis, revenue transactions recognized during the year by checking to the key terms of sales contracts, customers' acceptance reports and service settlement reports, delivery documents and underlying sales invoices to determine whether revenue had been recognized in accordance with the Group's revenue recognition policies; • We performed confirmation procedures on trade receivables balances and revenue transactions. The items were selected on a sample basis by considering the amount, nature and characteristic of the customers; and • We tested, on a sample basis, revenue transactions before and after the financial year-end to delivery documents, customers' acceptance reports or service settlement reports and underlying sales invoices to determine whether the sales of integrated products and solutions and the provision of data solution services had been recognized in the appropriate financial period. Based upon the above procedures performed, we considered that the recognition of revenue from the sales of integrated products and solutions and provision of data solution services were supported by the evidences that we have gathered.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of trade receivables Refer to Notes 3.1, 22, 46.10, and 46.12 to the consolidated financial statements. As at 31 December 2023, the Group had gross trade receivables of approximately RMB789,512,000, against which allowance for impairment of approximately RMB169,063,000 was made. Management applied judgement and estimates to measure the expected credit loss allowance. The trade receivables were grouped based on shared credit risk characteristics and the aging days, and assessed collectively or individually for likelihood of recovery. The expected credit loss rates were based on the payment profiles of sales and the corresponding historical credit losses experienced within this period. The historical loss rates were adjusted to reflect the current and forward-looking information on macro economic factors affecting the ability of the debtors to settle the receivables. We focused on auditing the impairment of trade receivables because of the magnitude of the trade receivables and the high degree of judgement and estimation uncertainty due to the subjectivity of assumptions and the complexity of the expected credit losses model.	Our audit procedures performed on impairment assessment of trade receivables included: • We understood and evaluated the relevant controls in respect of its assessment of impairment of trade receivables, validated the key controls and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We performed retrospective review by comparing previous estimates to actual outcome. We evaluated the outcome of prior period assessment of impairment of trade receivables to assess the effectiveness of management's estimation process; • We assessed the appropriateness of the expected credit losses model adopted by management; • We assessed the appropriateness of the assumptions used in the expected credit losses model with reference to historical payment records, ageing analysis and default rates; • We evaluated the reasonableness of the forward-looking information including relevant macroeconomic variables by considering the industry and macro economic information obtained from our independent internet search;

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	• We tested, on a sample basis, the accuracy of the aging of trade receivables to respective supporting documents; • We considered whether the judgement made in the grouping of trade receivables and the selection of significant assumptions and data in the determination of expected credit loss rates would give rise to indicators of possible management bias; and • We also assessed the adequacy of the disclosures related to impairment of trade receivables in the context of the applicable financial reporting framework. Based upon the above procedures performed, we considered that the expected credit losses model, management's judgement and estimates applied in respect of the impairment of trade receivables were supportable by the evidences that we have gathered.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Notes 18, 46.8 and 46.9 to the consolidated financial statements. As at 31 December 2023, the Group had goodwill of RMB327,385,000 in relation to the acquisitions over years. Management assessed goodwill impairment on an annual basis. The Group engaged an independent external valuation expert to assist in the goodwill impairment testing. Management considered each of the acquired entity a separate group of cash generating units ("CGU"). Management assessed the impairment of goodwill with reference to the recoverable amounts of the CGUs which were taken as the higher of the fair value less disposal cost and value-in-use calculated based on the discounted cash flow forecast of the respective CGUs. The recoverable amounts of these CGUs are finally determined based on value-in-use calculations. Significant management estimates were involved in the goodwill impairment assessment, including the adoption of significant assumptions and parameters, which mainly include revenue growth rates, gross profit margins and pre-tax discount rate. We focused our audit effort in this area because of the significance of the goodwill amounts, the uncertainty associated with estimating the future operating performance of these CGUs and subjectivity of management estimates involved in determining the valuations, including the appropriateness of the significant assumptions and parameters adopted.	Our audit procedures performed on impairment assessment of goodwill included: • We obtained an understanding of the management's internal control and process of impairment assessment of goodwill and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We assessed the competence, capabilities and objectivity of the external valuation expert who assisted management in determining the value-in-use calculations of these CGUs; • We compared the current period actual results with previous forecast to consider, with hindsight, whether key assumptions included in that forecast had been subject to management bias and to assess the effectiveness of management's estimate process; • We assessed management's future cash flow forecast and calculation of value-in-use of each CGU. Our procedures included: i) assessing the appropriateness of the valuation methodology adopted by reference to market practices with the assistance from our internal valuation expert; ii) assessing the key assumptions, including the revenue growth rates and gross profit margins by comparing with the historical financial results and future business plans;

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	iii) assessing the pre-tax discount rate by reference to external data, including the risk factor of comparable companies and market risk premium with the assistance from our internal valuation expert; and iv) testing the mathematical accuracy of the discounted cash flows calculation. • We assessed management's sensitivity analysis to evaluate the assumptions to which the outcome of the discounted cash flows are more sensitive and the degree and likelihood that these assumptions may move to trigger an impairment; and • We also assessed the adequacy of the disclosures related to impairment assessment of goodwill in the context of the applicable financial reporting framework. Based upon the above procedures performed, we considered that the methodology and management estimates adopted in the goodwill impairment assessment were supported by available evidence that we gathered.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards 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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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 ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Revenue	6	**1,751,045**	1,557,643
Cost of sales	7	**(1,162,560)**	(1,050,565)
Gross profit		**588,485**	507,078
Selling and distribution expenses	7	**(214,542)**	(162,703)
General and administrative expenses	7	**(406,624)**	(329,531)
Research and development expenses	7	**(449,796)**	(416,309)
Net impairment losses on financial assets	3.1	**(86,802)**	(37,022)
Share of net losses of investments accounted for using the equity method		**(342)**	(575)
Other income	9	**57,367**	56,009
Other losses, net	10	**(87,758)**	(9,238)
Operating loss		**(600,012)**	(392,291)
Finance costs	11	**(8,573)**	(8,089)
Finance income	11	**29,050**	38,708
Loss before income tax		**(579,535)**	(361,672)
Income tax credit	12	**9,263**	512
Loss for the year		**(570,272)**	(361,160)
Other comprehensive (loss)/income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Currency translation difference		**(53)**	192
Other comprehensive (loss)/income for the year, net of tax		**(53)**	192
Total comprehensive loss for the year		**(570,325)**	(360,968)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Loss for the year attributable to:			
Owners of the Company		**(582,337)**	(363,042)
Non-controlling interests		**12,065**	1,882
Loss for the year		**(570,272)**	(361,160)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(582,372)**	(362,944)
Non-controlling interests		**12,047**	1,976
Total comprehensive loss for the year		**(570,325)**	(360,968)
Basic and diluted loss per share for loss attributable to the owners of the Company (in RMB)	14	**(1.05)**	(0.66)

The notes on pages 116 to 214 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**56,600**	81,943
Right-of-use assets	16	**65,594**	75,089
Intangible assets	17	**327,031**	206,620
Goodwill	18	**327,385**	194,552
Investments accounted for using the equity method		**—**	342
Financial assets at fair value through other comprehensive income	24	**9,000**	—
Other non-current assets	19	**10,290**	24,767
Total non-current assets		**795,900**	583,313
Current assets			
Inventories	21	**130,629**	107,772
Trade and notes receivables	22	**671,547**	571,935
Prepayments and other receivables	23	**218,904**	191,517
Financial assets at fair value through other comprehensive income	24	**3,203**	5,310
Financial assets at fair value through profit or loss	25	**103,826**	156,020
Restricted cash	26	**20,533**	9,915
Cash and cash equivalents	26	**1,344,615**	1,642,665
Total current assets		**2,493,257**	2,685,134
Total assets		**3,289,157**	3,268,447
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**565,051**	559,305
Share premium	27	**2,631,580**	2,562,978
Less: Treasury share	28	**(264,349)**	(258,821)
Other reserves	29	**949,292**	671,882
Accumulated losses		**(1,848,252)**	(1,265,915)
		2,033,322	2,269,429
Non-controlling interests		**190,823**	89,546
Total equity		**2,224,145**	2,358,975

The notes on pages 116 to 214 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2023

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	16	**56,667**	70,153
Deferred income tax liabilities	32	**40,677**	27,322
Other non-current liabilities	31	**6,636**	15,523
Financial liabilities at fair value through profit or loss	36	**95,565**	73,166
Total non-current liabilities		**199,545**	186,164
Current liabilities			
Borrowings	33	**76,651**	57,590
Lease liabilities	16	**23,069**	19,958
Trade and notes payables	34	**353,707**	280,324
Contract liabilities	37	**121,778**	105,486
Other payables and accruals	35	**210,808**	182,523
Current income tax liabilities		**664**	3,056
Financial liabilities at fair value through profit or loss	36	**78,790**	74,371
Total current liabilities		**865,467**	723,308
Total liabilities		**1,065,012**	909,472
Total equity and liabilities		**3,289,157**	3,268,447

The notes on pages 116 to 214 are an integral part of these consolidated financial statements.

The consolidated financial statements on page 108 to 214 were approved by the Board of Directors of the Company on 28 March 2024 and were signed on its behalf by:

Xu Hui
Director

Wang Hua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Less: Treasury share RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2023		559,305	(258,821)	2,562,978	671,882	(1,265,915)	2,269,429	89,546	2,358,975
(Loss)/profit for the year		—	—	—	—	(582,337)	(582,337)	12,065	(570,272)
Other comprehensive loss									
– Currency translation differences	29	—	—	—	(35)	—	(35)	(18)	(53)
Total other comprehensive loss for the year		—	—	—	(35)	—	(35)	(18)	(53)
Transactions with owners in their capacity as owners									
– Placing of new shares		19,900	—	329,182	—	—	349,082	—	349,082
– Shares cancelled		(14,154)	274,734	(260,580)	—	—	—	—	—
– Repurchase of shares	28	—	(280,262)	—	—	—	(280,262)	—	(280,262)
– Share-based payment expenses	30	—	—	—	290,271	—	290,271	—	290,271
– Capital injection by non-controlling interests		—	—	—	—	—	—	20,600	20,600
– Transaction with non-controlling interests		—	—	—	(12,826)	—	(12,826)	2,662	(10,164)
– Non-controlling interests arising on business combination	40	—	—	—	—	—	—	65,968	65,968
Total transactions with owners in their capacity as owners		5,746	(5,528)	68,602	277,445	—	346,265	89,230	435,495
Balance at 31 December 2023		565,051	(264,349)	2,631,580	949,292	(1,848,252)	2,033,322	190,823	2,224,145

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Less: Treasury share RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022		514,560	—	1,674,871	498,490	(902,873)	1,785,048	10,260	1,795,308
(Loss)/profit for the year		—	—	—	—	(363,042)	(363,042)	1,882	(361,160)
Other comprehensive income									
– Currency translation differences	29	—	—	—	98	—	98	94	192
Total other comprehensive income for the year		—	—	—	98	—	98	94	192
Transactions with owners in their capacity as owners									
– Repurchase of shares	28	—	(258,821)	—	—	—	(258,821)	—	(258,821)
– Share-based payment expenses	30	—	—	—	173,294	—	173,294	—	173,294
– Dividends of a subsidiary distributed to non-controlling interests		—	—	—	—	—	—	(539)	(539)
– Issuance of shares by initial public offering, net of attributable transaction costs		44,745	—	888,107	—	—	932,852	—	932,852
– Non-controlling interests arising on business combination	40	—	—	—	—	—	—	67,049	67,049
– Capital injection by non-controlling interests		—	—	—	—	—	—	10,800	10,800
Total transactions with owners in their capacity as owners		44,745	(258,821)	888,107	173,294	—	847,325	77,310	924,635
Balance at 31 December 2022		559,305	(258,821)	2,562,978	671,882	(1,265,915)	2,269,429	89,546	2,358,975

The notes on pages 116 to 214 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash used in operations	38	**(206,005)**	(344,044)
Interest received		**29,050**	38,708
Income taxes (paid)/received		**(3,369)**	1,034
Net cash used in operating activities		**(180,324)**	(304,302)
Cash flows from investing activities			
Payments of property, plant and equipment and intangible assets		**(6,270)**	(21,597)
Proceeds from disposals of property, plant and equipment		**4**	—
Payments of financial assets at fair value through profit or loss		**(559,000)**	(292,379)
Proceeds from disposal of financial assets at fair value through profit or loss		**536,534**	141,399
Interest received on financial assets at fair value through profit or loss	10	**3,847**	632
Payments of fair value through other comprehensive income	24	**(9,000)**	—
Acquisition of a subsidiary	40	**(87,867)**	(120,862)
Loans to a related party	41	**(13,500)**	—
Loans receivables repaid by a related party	41	**13,500**	—
Payments of contingent consideration	36	**(45,017)**	—
Other investing activities		**(21,930)**	—
Net cash used in investing activities		**(188,699)**	(292,807)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Cash flows from financing activities			
Capital injection in subsidiaries from non-controlling interests		**20,600**	10,800
Transactions with non-controlling interests		**(10,164)**	—
Net proceeds from placing of new shares		**349,082**	—
Proceeds from award of restricted shares under the employee equity incentive scheme		**67,693**	—
Repayments of award of restricted shares under the employee share incentive scheme		**(26,367)**	—
Proceeds from share issuance upon listing		**—**	957,462
Proceeds from bank borrowings		**93,200**	40,640
Repayments of bank borrowings		**(88,248)**	(39,753)
Interest paid of bank borrowings		**(2,624)**	(2,462)
Repayments of convertible bond		**(30,000)**	—
Proceeds from a related party borrowing		**6,900**	19,370
Repayments of a related party borrowing		**(11,700)**	—
Payments of lease liabilities	16	**(27,682)**	(10,095)
Payments for listing expenses		**—**	(14,619)
Dividends paid to non-controlling interests		**—**	(539)
Repurchase of shares		**(264,864)**	(275,117)
Net cash generated from financing activities		**75,826**	685,687
Net (decrease)/increase in cash and cash equivalents		**(293,197)**	88,578
Cash and cash equivalents at beginning of the year	26	**1,642,665**	1,553,150
Exchange (losses)/gains on cash and cash equivalents		**(4,853)**	937
Cash and cash equivalents at the end of the year	26	**1,344,615**	1,642,665

The notes on pages 116 to 214 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2023

1 General information of the Group

Qingdao AInnovation Technology Group Co., Ltd. was incorporated in the People's Republic of China (the "PRC") on 6 February 2018 as a limited liability company, and changed to a joint stock company on 19 May 2021. The address of the Company's registered office is Room 501, Block A, Haier International Plaza, No. 939 Zhenwu Road, Economic Development Zone, Jimo District, Qingdao, Shandong, PRC.

The Company and its subsidiaries (collectively, the "Group") conduct research and development of artificial intelligence technologies and provide artificial intelligence based software and hardware technology solutions services in the PRC.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 27 January 2022.

These consolidated financial statements are presented in Renminbi ("RMB") unless otherwise stated.

2 Basis of preparation and changes in accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRS Accounting Standards and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities that are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies

New and amended standards adopted by the Group

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Standards and amendments	Key requirements	Effective for annual periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
IAS 12 (Amendments)	International tax reform – pillar two model rules	1 January 2023

2 Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies (continued)

New and amended standards not adopted by the Group

The followings are new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Key requirements	Effective for annual periods beginning on or after
IAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
IAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
IFRS 16 (Amendments)	Lease liability in sale and leaseback	1 January 2024
IFRS 7 and IAS 7 (Amendments)	Supplier finance arrangements	1 January 2024
IAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge certain risk exposures during the years.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective group entities' functional currency. The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group currently does not have a foreign currency hedging policy. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group's major exposure to foreign currency risk at 31 December 2023 and 2022, expressed in RMB, was as follows:

	Year ended 31 December			
	2023		**2022**	
	HKD	**USD**	**HKD**	**USD**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash and cash equivalents	**1**	**1,943**	56,817	1
Trade and notes receivables	**—**	**3,370**	—	11,127
Other receivables	**—**	**—**	16,296	-

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

Foreign exchange risk (continued)

As at 31 December 2023 and 2022, if a foreign currency had strengthened/weakened by 10% against the RMB with all other variables held constant, the Group's loss before income tax for the year would have changed mainly as a result of foreign exchange gains/losses on translation of the foreign currency denominated cash and cash equivalents and receivables. Details of the changes are as follows:

	Loss for the year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
HKD strengthened/weakened by 10%	**—**	7,311 lower/higher
USD strengthened/weakened by 10%	**531 lower/higher**	1,113 lower/higher

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets and liabilities, except for lease liabilities (Note 16), financial liabilities at fair value through profit and loss ("FVTPL") (Note 36), borrowings (Note 33), cash and cash equivalents (Note 26) and restricted cash (Note 26). Lease liabilities, financial liabilities at FVTPL, borrowings, cash and cash equivalents and restricted cash expose the Group to fair value interest rate risk.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents and restricted cash, financial assets at fair value through other comprehensive income ("FVTOCI") and trade and notes receivables and other receivables. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Credit risk of cash and cash equivalents and restricted cash

To manage this risk, cash deposits at banks are mainly placed with state-owned and reputable financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are immaterial.

(ii) Credit risk of trade receivables

The Group has policies in place to ensure that trade receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing days, and assessed collectively or individually for likelihood of recovery.

The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product (GDP), the Consumer Price Index (CPI) and Producer Price Index (PPI) to be the most relevant factors, and accordingly adjusted the historical loss rates based on expected changes in these factors.

Individually impaired trade receivables are related to customers who are experiencing unexpected economic difficulties. The Group expects that the amounts of the receivables will partially or entirely have difficulty to be recovered and has recognized impairment losses.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

Credit risk (continued)

(ii) Credit risk of trade receivables (continued)

	Less than 3 months RMB'000	3 months to 6 months RMB'000	6 months to 12 months RMB'000	1 year to 2 years RMB'000	2 years to 3 years RMB'000	Total RMB'000
31 December 2023						
Trade receivables (Note 22)						
Gross carrying amount	**323,794**	**101,583**	**202,717**	**143,794**	**17,624**	**789,512**
Expected loss rate	**(4.80%)**	**(7.89%)**	**(20.12%)**	**(51.43%)**	**(100.00%)**	**(19.75%)**
Collectively impaired loss allowance	**(15,557)**	**(8,014)**	**(40,788)**	**(73,950)**	**(17,624)**	**(155,933)**
Individually impaired loss allowance	**—**	**—**	**(64)**	**(13,066)**	**—**	**(13,130)**
Total loss allowance	**(15,557)**	**(8,014)**	**(40,852)**	**(87,016)**	**(17,624)**	**(169,063)**

	Less than 3 months RMB'000	3 months to 6 months RMB'000	6 months to 12 months RMB'000	1 year to 2 years RMB'000	2 years to 3 years RMB'000	Total RMB'000
31 December 2022						
Trade receivables (Note 22)						
Gross carrying amount	367,696	92,954	94,906	45,865	25,881	627,302
Expected loss rate	(4.14%)	(8.84%)	(20.01%)	(43.90%)	(100.00%)	(14.10%)
Collectively impaired loss allowance	(15,208)	(8,220)	(18,987)	(20,136)	(25,881)	(88,432)
Individually impaired loss allowance	—	—	—	—	—	—
Total loss allowance	(15,208)	(8,220)	(18,987)	(20,136)	(25,881)	(88,432)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

Credit risk (continued)

(iii) Credit risk of notes receivables and other receivables

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

Other receivables mainly comprise deposits and other receivables. The Group considers the probability of default on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the third party;
- significant changes in the expected performance and behavior of the third party, including changes in the payment status of the third party.

For notes receivables, the Group expects that the credit risk associated with notes receivables is considered to be low. The Group has assessed that the expected credit losses rate for notes receivables are immaterial under 12 months expected credit losses method, and thus the loss allowance is immaterial.

Trade and other receivables are written off when there is no reasonable expectation of recovery.

Impairment losses on trade and other receivables are presented as net impairment losses within operating loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

Credit risk (continued)

The movement of loss allowance for trade receivables and other receivables during the year ended 31 December 2023 and 2022 are as below:

	Trade receivables RMB'000	Other receivables RMB'000	Total RMB'000
As at 1 January 2023	**88,432**	**2,305**	**90,737**
Acquisition of a subsidiary	**1,551**	**—**	**1,551**
Provisions (i)	**81,493**	**10,620**	**92,113**
Written off as uncollectible	**(2,413)**	**(687)**	**(3,100)**
As at 31 December 2023	**169,063**	**12,238**	**181,301**
As at 1 January 2022	49,339	—	49,339
Acquisition of subsidiaries	28,807	3,235	32,042
Provisions/(reversed)	37,548	(526)	37,022
Written off as uncollectible	(26,216)	—	(26,216)
Disposal of a subsidiary	(1,046)	(404)	(1,450)
As at 31 December 2022	88,432	2,305	90,737

(i) For the year ended 31 December 2023, the Group collected trade receivables at the total amount of RMB5,311,000 which have been written off in the previous years.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
As at 31 December 2023				
Trade and notes payables	**353,707**	**—**	**—**	**353,707**
Other payables and accruals (excluding payroll and welfare payables, warranty and other tax payables)	**120,809**	**—**	**—**	**120,809**
Borrowings	**78,121**	**—**	**—**	**78,121**
Financial liabilities at FVTPL	**85,033**	**84,150**	**38,250**	**207,433**
Lease liabilities	**26,217**	**29,398**	**30,176**	**85,791**
	663,887	**113,548**	**68,426**	**845,861**

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

Liquidity risk (continued)

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
As at 31 December 2022				
Trade and notes payables	280,324	—	—	280,324
Other payables and accruals (excluding payroll and welfare payables, warranty and other tax payables)	79,045	—	—	79,045
Borrowings	58,549	—	—	58,549
Financial liabilities at FVTPL	75,900	45,900	45,900	167,700
Lease liabilities	22,005	21,250	50,432	93,687
	515,823	67,150	96,332	679,305

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

3 Financial risk management (continued)

3.2 Capital management (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the net debt equity ratio. This ratio is calculated as "net debt" divided by "total equity". Net debt is calculated as total borrowings, convertible bond and lease liabilities less cash and cash equivalents. The net debt equity ratios of 31 December 2023 and 2022 were as follows:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Borrowings (including related party borrowing)	**91,221**	76,960
Convertible bond, included in financial liabilities at FVTPL	**—**	29,931
Lease liabilities	**79,736**	90,111
Less: Cash and cash equivalents	**(1,344,615)**	(1,642,665)
Net debt	**(1,173,658)**	(1,445,663)
Total equity	**2,224,145**	2,358,975
Net debt equity ratio	**N/A**	N/A

3.3 Fair value estimation

Financial instruments carried at fair value or where fair value was disclosed can be categorised by levels of the inputs to valuation techniques used to measure fair value. The inputs are categorised into three levels within a fair value hierarchy as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2023				
Assets				
Financial assets at FVTOCI				
– Notes receivables	—	—	3,203	3,203
– Unlisted equity investment	—	—	9,000	9,000
	—	—	12,203	12,203
Financial assets at FVTPL				
– Wealth management products	—	14,500	—	14,500
– Investment fund	—	—	48,481	48,481
– Listed equity securities	2,438	—	—	2,438
– Other financial investment instrument	—	38,407	—	38,407
	2,438	52,907	48,481	103,826
Liabilities				
Financial liabilities at FVTPL				
– Contingent considerations	—	—	174,355	174,355

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2022				
Assets				
Financial assets at FVTOCI				
– Notes receivables	—	—	5,310	5,310
Financial assets at FVTPL				
– Wealth management products	—	14,125	—	14,125
– Investment fund	—	—	69,260	69,260
– Listed equity securities	2,920	—	—	2,920
– Other financial investment instrument	—	69,715	—	69,715
	2,920	83,840	69,260	156,020
Liabilities				
Financial liabilities at FVTPL				
– Contingent considerations	—	—	117,606	117,606
– Convertible bond	—	—	29,931	29,931
	—	—	147,537	147,537

There were no transfers between level 1, 2 and 3 during the years ended 31 December 2023 and 2022.

The fair value of financial instruments that are not traded in an active market (Level 2 and Level 3) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

As at 31 December 2023, the discounted cash flow method was used to determine the fair value of notes receivables and contingent liabilities. The key assumption under the discounted cash flow method is discount rate (3.05% - 14.00%). The net asset value method was used to determine the fair value of investment fund and unlisted equity investment and no key assumption is applicable for the net asset value method.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the changes in level 3 items for the years ended 31 December 2023 and 2022:

	Financial assets at FVTPL RMB'000	Financial assets at FVTOCI RMB'000	Financial liabilities at FVTPL RMB'000
Opening balance as at 1 January 2022	—	34,333	—
Acquisition of subsidiaries	3,370	4,836	139,416
Additions	98,650	48,926	—
Disposals	(28,870)	(82,785)	—
Change in fair value	(3,890)	—	8,121
Closing balance as at 31 December 2022	69,260	5,310	147,537
Acquisition of a subsidiary	—	—	86,743
Additions	18,000	119,445	—
Disposals/paid	—	(112,552)	(75,017)
Change in fair value	(38,779)	—	15,092
Closing Balance as at 31 December 2023	48,481	12,203	174,355
Includes unrealised gains or (losses) recognized in profit or loss attributable to balances held for year ended 31 December, 2023	(38,779)	—	14,446
Includes unrealised gains or (losses) recognized in profit or loss attributable to balances held for year ended 31 December, 2022	(3,890)	—	8,121

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

	Fair value As at 31 December		Significant un-observable inputs	Range of inputs (probability-weighted average) Year ended 31 December		Relationship of unobservable inputs to fair value
	2023 RMB'000	2022 RMB'000		2023	2022	
Notes receivables	**3,203**	5,310	Discount rates	**3.05%**	3.79%	An increase/decrease in the discount rate by 50 basis points (bps) would decrease/increase the fair value by approximately RMB5,000 and RMB5,000 respectively (31 December 2022: RMB11,000 and RMB12,000).
Unlisted equity investment	**9,000**	—	Net asset value	**N/A**	N/A	The higher the net asset value, the higher the fair value.
Private equity fund investment	**48,481**	69,260	Net asset value	**N/A**	N/A	The higher the net asset value, the higher the fair value.
Contingent considerations	**174,355**	117,606	Discount rates	**14%**	14%	An increase/decrease in the discount rate by 50 bps would decrease/increase the fair value by approximately RMB978,000 and RMB989,000 respectively (31 December 2022: RMB594,000 and RMB603,000).
Convertible bond	**—**	29,931	Discount rates	**N/A**	8.25%	The higher the discount rates, the lower the fair value.

4 Critical estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

(a) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. For the 2023 reporting periods, the recoverable amount of cash-generating units (CGUs) was determined based the higher of the fair value less disposal cost and value-in-use calculated based on the discounted cash flow forecast. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 18. These growth rates are extrapolated using the estimated general inflation rate.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 18.

(b) Impairment of trade receivables

The loss allowance for financial assets disclosed in Note 3.1 is based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The carrying amounts of the Group's trade receivables are disclosed in Note 22.

(c) Income taxes and deferred income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4 Critical estimates and judgements (continued)

(c) Income taxes and deferred income tax (continued)

The Group recognizes deferred tax assets based on estimates that is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgements and estimations about the timing and the amount of taxable profits of the companies who had tax losses. Deferred income tax liabilities relating to business combination are recognized when the fair value of the assets transferred exceeds its carrying amount. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

(d) Share-based payments

As disclosed in Note 30, the Company granted equity-settled share options and restricted share units ("RSUs") to certain directors, senior management, employees and consultants. Significant estimate on assumptions in determining the fair value of the granted share options and RSUs include risk-free interest rate, expected volatility and dividend yield.

5 Segment information

The executive director of the Company has been identified as the chief operating decision-maker of the Group who reviews the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The revenue of the Group is primarily derived from artificial intelligence products and services. Therefore, the Group regards that there is only one segment which is used to make strategic decisions.

No geographical segment information is presented as most of the revenue and operating losses of the Group are derived within the PRC and most of the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

No individual customer contributed over 10% of the total revenue of the Group for the year ended 31 December 2023 and 2022.

6 Revenue

An analysis of revenue is as follows:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Point in time		
— Sales of products and solutions	**1,586,403**	1,458,327
Over time		
— Sales of products and solutions	**45,955**	63,902
— Services of data solutions	**118,687**	35,414
	1,751,045	1,557,643

The total sales of integrated products and solutions are RMB1,632,358,000 for the year ended 31 December 2023 (2022: RMB1,522,229,000).

(i) Revenue recognition

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

6 Revenue (continued)

(i) Revenue recognition (continued)

In determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group follows the accounting guidance for principal-agent considerations to assess whether the Group controls the specified goods or service before it is transferred to the customer, the indicators of which including but not limited to (a) whether the entity is primarily responsible for fulfilling the promise to provide the specified goods or service; (b) whether the entity has inventory risk before the specified goods or service has been transferred to a customer; and (c) whether the entity has discretion in establishing the prices for the specified goods or service. The management considers the above factors in totality, as none of the factors individually are considered presumptive or determinative, and applies judgment when assessing the indicators depending on each different circumstance.

The following is a description of the accounting policy for the principal revenue streams of the Group.

(a) Sales of products and solutions

The Group provides multiple deliverables to customers, including the design of artificial intelligence solution, delivery of products and software, and installation of products and software. It is accounted for as a single performance obligation since the Group provides an integrated products and solutions.

The revenue of such integrated products and solutions is recognized at a point of time when the customers accept the products and solutions after the installation is complete or when the customers obtain the control of the products and solutions if no installation is required. For certain sales contracts, the revenue is recognized over time since the 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.

(b) Services of data solutions

The Group provides services of data solutions to customers during a certain period. Data solutions include cloud services, and data analysis, etc.

Revenue from data solutions are accounted for as a single performance obligation and recognized when the Group has provided the promised relevant services. As the customer simultaneously receives and consumes the services provided by the Group over the period, the performance obligation is satisfied over time with reference to the customers' usage of services to the satisfaction of the performance obligation of the projects.

6 Revenue (continued)

(i) Revenue recognition (continued)

(b) Services of data solutions (continued)

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.

7 Expenses by nature

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Materials costs	**720,974**	746,662
Subcontracting costs	**665,509**	528,950
Employee benefit expenses (Note 8)	**576,983**	469,322
Professional service and other consulting fees	**42,435**	32,555
Amortisation of intangible assets (Note 17)	**37,636**	19,341
Marketing expenses	**37,004**	18,324
Depreciation of property, plant and equipment (Note 15)	**30,093**	31,310
Depreciation of right-of-use assets (Note 16)	**24,846**	21,877
Travelling expenses	**16,424**	16,395
Rental and property management expenses	**6,920**	2,806
Recruiting and training expenses	**6,878**	1,467
Auditors' remuneration - audit services	**5,350**	4,500
– non-audit services	**1,300**	1,577
Listing expenses	**—**	26,457
Other expenses	**61,170**	37,565
	2,233,522	1,959,108

8 Employee benefit expenses

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wages, salaries and bonuses	**228,989**	245,318
Pension costs-defined contribution plans	**19,615**	20,683
Other social security and housing fund	**19,320**	20,002
Share-based payment expenses	**290,271**	173,294
Other employee benefits	**18,788**	10,025
	576,983	469,322

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2023 and 2022 included 1 director and 1 director, respectively, whose emoluments are reflected in the analysis presented in Note 43. The emoluments paid or payable to the remaining individuals during the reporting periods are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wages, salaries and bonuses	**5,676**	7,266
Pension costs-defined contribution plans	**262**	207
Other social security and housing fund	**255**	205
Share-based payment expenses	**90,498**	81,802
	96,691	89,480

8 Employee benefit expenses (continued)

The emoluments of the five highest paid individuals except for the director, whose emoluments have been disclosed in Note 43, fell within the following bands:

	Year ended 31 December	
	2023	**2022**
HKD 11,000,001 to HKD 11,500,000	**—**	1
HKD 18,000,001 to HKD 18,500,000	**1**	—
HKD 20,000,001 to HKD 20,500,000	**—**	1
HKD 23,500,001 to HKD 24,000,000	**—**	1
HKD 24,000,001 to HKD 24,500,000	**2**	—
HKD 40,000,001 to HKD 40,500,000	**1**	—
HKD 45,000,001 to HKD 45,500,000	**—**	1
	4	4

9 Other income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Government grants	**57,367**	56,009

Government grants provided to the Group mainly related to financial subsidy from the local governments in the PRC.

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income (Note 31) and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

10 Other losses, net

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Foreign exchange (losses)/gains	**(5,273)**	5,046
Gains/(losses) on disposal of property, plant and equipment and right-of-use assets	**1,851**	(334)
Fair value losses on financial assets and liabilities at FVTPL	**(89,683)**	(8,716)
Interests received on financial assets at FVTPL	**3,847**	632
Liquidated damages	**—**	(6,400)
Others	**1,500**	534
	(87,758)	(9,238)

11 Finance income/(costs)

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Finance income:		
Interest income from bank deposits	**29,050**	38,708
Finance costs:		
Interest expenses on lease liabilities (Note 16)	**(4,188)**	(4,227)
Interest expenses on bank borrowings	**(2,842)**	(2,462)
Interest expenses on convertible bond	**(1,543)**	(1,400)
	(8,573)	(8,089)
Finance income, net	**20,477**	30,619

12 Income tax credit

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Current tax on profits for the year	**818**	3,667
Deferred income tax (Note 32)	**(10,081)**	(4,179)
Income tax credit	**(9,263)**	(512)

12 Income tax credit (continued)

The difference between the actual income tax expense charged to the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rates to loss before taxation can be reconciled as follows:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Loss before taxation	**(579,535)**	(361,672)
Tax calculated at tax rates applicable to profits of the respective subsidiaries	**(144,884)**	(90,418)
Preferential tax of certain subsidiaries	**50,682**	32,452
Expenses not deductible for tax purposes	**43,139**	27,182
Super deductions from research and development expenditures	**(33,230)**	(18,157)
Utilisation of the tax losses unrecognized deferred income tax previously	**(2,077)**	(2,644)
Temporary difference for which no deferred tax asset was recognized	**13,738**	14,837
Tax losses for which no deferred tax asset was recognized	**63,369**	36,236
Income tax credit	**(9,263)**	(512)

The Group's subsidiaries in the PRC are subject to the PRC corporate income tax at a rate of 25% on estimated assessable profits.

A number of subsidiaries of the Group obtained or kept the qualification as High and New Technology Enterprises in 2023. According to the tax incentives of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years commencing from the years when these companies are recognized as High New Tech Enterprises.

A number of subsidiaries of the Group are entitled to the preferential policy of Small and Micro-sized enterprises, for which the applicable income tax rate is 5%.

The Group mainly operates within Mainland China. It is within the scope of the OECD Pillar Two model rules. As of the reporting date, there is no public announcement in Mainland China.

Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax exposure. The Group applies the exemption to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

12 Income tax credit (continued)

In addition, since the Pillar Two legislation in the jurisdictions that the Group operates in was not enacted or substantively enacted as at the reporting date, and due to the uncertainty of the announcement of the legislation and the complexities in applying the legislation and calculating GloBE income, the Group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect.

13 Dividends

The Board does not recommend a final dividend for the year ended 31 December 2023 (2022:Nil).

14 Loss per share

(a) Basic loss per share

The basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares (excluding treasury shares) issued during the year ended 31 December 2023 and 2022.

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Loss from continuing operation attributable to the owners of the Company	**(582,337)**	(363,042)
Weighted average number of ordinary shares in issue ('000)	**556,283**	550,722
Basic loss per share (RMB)	**(1.05)**	(0.66)

(b) Diluted loss per share

As the Group incurred losses for the year ended 31 December 2023 and 2022, the potential diluted ordinary shares related to treasury shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, the diluted loss per share for the year ended 31 December 2023 and 2022 are the same as basic loss per share of the respective year.

15 Property, plant and equipment

	Leasehold improvements RMB'000	Electronic equipment RMB'000	Office equipment RMB'000	Transportation equipment and vehicles RMB'000	Production equipment RMB'000	Buildings RMB'000	Construction in-progress RMB'000	Total RMB'000
Year ended 31 December 2023								
Opening net book amount	53,807	9,413	4,876	4,148	8,660	1,039	—	81,943
Additions	—	2,179	322	—	—	—	4,071	6,572
Acquisition of a subsidiary	—	356	—	—	—	—	—	356
Disposals	(1,844)	(177)	(52)	(105)	—	—	—	(2,178)
Depreciation (Note 7)	(20,825)	(5,374)	(1,691)	(1,347)	(788)	(68)	—	(30,093)
Transfers	3,667	—	—	404	—	—	(4,071)	—
Net book amount	34,805	6,397	3,455	3,100	7,872	971	—	56,600
As at 31 December 2023								
Cost	115,485	17,287	6,318	4,926	9,021	1,078	—	154,115
Accumulated depreciation	(80,680)	(10,890)	(2,863)	(1,826)	(1,149)	(107)	—	(97,515)
Net book amount	34,805	6,397	3,455	3,100	7,872	971	—	56,600

15 Property, plant and equipment (continued)

	Leasehold improvements RMB'000	Electronic equipment RMB'000	Office equipment RMB'000	Transportation equipment and vehicles RMB'000	Production equipment RMB'000	Buildings RMB'000	Construction in-progress RMB'000	Total RMB'000
Year ended 31 December 2022								
Opening net book amount	51,269	11,320	1,873	—	—	—	14,750	79,212
Additions	8,725	2,896	861	3,027	1,858	—	1,087	18,454
Acquisition of subsidiaries	1,731	643	3,610	1,654	9,145	1,078	—	17,861
Disposals	—	(36)	(417)	—	(1,821)	—	—	(2,274)
Depreciation (Note 7)	(23,755)	(5,410)	(1,051)	(533)	(522)	(39)	—	(31,310)
Transfers	15,837	—	—	—	—	—	(15,837)	—
Net book amount	53,807	9,413	4,876	4,148	8,660	1,039	—	81,943
As at 31 December 2022								
Cost	117,893	21,413	6,620	4,681	9,021	1,078	—	160,706
Accumulated depreciation	(64,086)	(12,000)	(1,744)	(533)	(361)	(39)	—	(78,763)
Net book amount	53,807	9,413	4,876	4,148	8,660	1,039	—	81,943

Depreciation of the Group's property, plant and equipment has been recognized as follows:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Cost of sales	**329**	270
General and administrative expenses	**11,039**	9,029
Research and development expenses	**14,351**	17,385
Selling expenses	**4,374**	4,626
	30,093	31,310

15 Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5 years, or over lease term, whichever is the shorter
Electronic equipment	3 years
Office equipment	5 years
Transportation equipment and vehicles	4 – 5 years
Production equipment	10 years
Buildings	20 years

16 Leases

(i) Amounts recognized in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Right-of-use assets		
Offices	**59,996**	67,747
Plants	**5,598**	7,342
	65,594	75,089
Lease liabilities		
Current	**23,069**	19,958
Non-current	**56,667**	70,153
	79,736	90,111

Additions to the right-of-use assets during the years ended 31 December 2023 were RMB25,879,000 (2022: RMB9,894,000), among which, the additions arising on business combination were RMB845,000 (2022: RMB5,716,000).

16 Leases (continued)

(ii) Amounts recognized in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Depreciation charge of right-of-use assets (Note 7)		
Offices	**21,578**	20,629
Plants	**3,268**	1,248
	24,846	21,877
Interest expense (included in finance costs)	**4,188**	4,227

The total cash outflow for leases presented as financing activities of the years ended 31 December 2023 were RMB27,682,000 (2022: RMB10,095,000).

The total cash outflow short-term leases presented as operating activities of the years ended 31 December 2023 were RMB3,912,000 (2022: RMB3,886,000).

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices and plants. Rental contracts are typically made for fixed periods of 6 months to 5 years with no extension options. Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of IT equipments.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

17 Intangible assets

	Software RMB'000	Customer Relationships RMB'000	Technology RMB'000	Total RMB'000
Year ended 31 December 2023				
Opening net book amount	**4,612**	**167,489**	**34,519**	**206,620**
Additions	**206**	**—**	**—**	**206**
Acquisition of a subsidiary (Note 40)	**841**	**132,000**	**25,000**	**157,841**
Amortisation charge (Note 7)	**(1,501)**	**(25,432)**	**(10,703)**	**(37,636)**
Net book amount	**4,158**	**274,057**	**48,816**	**327,031**
As at 31 December 2023				
Cost	**11,839**	**309,400**	**63,900**	**385,139**
Accumulated amortisation	**(7,681)**	**(35,343)**	**(15,084)**	**(58,108)**
Net book amount	**4,158**	**274,057**	**48,816**	**327,031**
Year ended 31 December 2022				
Opening net book amount	5,672	—	—	5,672
Additions	1,786	—	—	1,786
Acquisition of subsidiaries	2,203	177,400	38,900	218,503
Amortisation charge (Note 7)	(5,049)	(9,911)	(4,381)	(19,341)
Net book amount	4,612	167,489	34,519	206,620
As at 31 December 2022				
Cost	10,792	177,400	38,900	227,092
Accumulated amortisation	(6,180)	(9,911)	(4,381)	(20,472)
Net book amount	4,612	167,489	34,519	206,620

17 Intangible assets (continued)

Amortisation of the intangible assets has been recognized as follows:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
General and administrative expenses	**1,167**	669
Research and development expenses	**11,037**	8,761
Selling and distribution expenses	**25,432**	9,911
	37,636	19,341

(i) Amortisation methods and periods

The group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Software	3-5 years
Customer relationship	10 years
Technology	5 years

(a) Software

Acquired software is initially capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Software is stated at historical cost less accumulated amortisation and impairment losses, if any.

The amortisation period and amortisation method of intangible assets are reviewed at each reporting period. The effects of any revision are recognized as profit or loss when the changes arise.

17 Intangible assets (Continued)

(i) Amortisation methods and periods (continued)

(b) Customer relationships and technology

Customer relationship and technology is acquired through business combinations. They are initially recognized and measured at estimated fair value and are amortized using the straight-line method.

When determining the length of useful lives of these intangible assets, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

(c) Research and development

The Group incurs significant costs and efforts on research and development activities, which include expenditures on artificial intelligence technology. Research expenditures are charged to the profit or loss as an expense in the period the expenditures are incurred. Development costs are recognized as assets if they can be directly attributable to a newly developed artificial intelligence products and all the following can be demonstrated (if applicable):

- the technical feasibility of completing the intangible assets 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 assets;
- 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.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. No development costs met these criteria and therefore, were capitalised as intangible assets during the reporting periods.

18 Goodwill

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cost additions on business combination	**327,385**	194,552

The goodwill arose from the acquisition of Shanghai Compass Information Technology Co., Ltd. ("Shanghai Compass") with the amount of goodwill of RMB132,833,000 on 31 May 2023, and arose from the following acquisitions during the year ended 31 December 2022: 1) the acquisition of AInnovation EHigher (Shanghai) Intelligence Technology Co., Ltd. (formerly known as "Shanghai Higher Mechanical & Electrical Co., Ltd.") and its subsidiaries ("Shanghai EHigher") on 31 May 2022; 2) the acquisition of Qingdao Aolipu Qizhi Intelligent Industrial Technology Co., Ltd. and its subsidiaries ("Qingdao Aolipu Qizhi") on 31 May 2022; and 3) the acquisition of Shenzhen AInnovation Eye Technology Co., Ltd. (formerly known as "Huiyan Automation Technology (Shenzhen) Co., Ltd.") ("Shenzhen Huiyan") on 31 October 2022. The amount of goodwill resulting from these acquisitions in 2022 were RMB96,377,000, RMB88,529,000 and RMB9,646,000, respectively. Shanghai Compass is mainly engaged in computer information technology consulting, big data analysis, and business intelligence solutions in the PRC. Shanghai EHigher is mainly engaged in developing and delivering AI-based products and solutions for the manufacture industries in the PRC. Qingdao Aolipu Qizhi mainly provides integrated solutions for intelligent industrial automation systems in area of intelligent manufacturing in the PRC. Shenzhen Huiyan is a system integrator providing hardware components development, agency services and softwares for manufacturing businesses in the PRC.

Impairment tests for CGUs containing goodwill

The Group carries out annual impairment test on goodwill by comparing the recoverable amounts of CGUs to the carrying amounts. Goodwill arising from the acquisition of Shanghai EHigher, Qingdao Aolipu Qizhi, Shenzhen Huiyan and Shanghai Compass was monitored separately and assessed as separate CGUs for the purpose of impairment testing.

The Group assesses the impairment of goodwill with reference to the recoverable amounts of the CGUs which are taken as the higher of the fair value less disposal cost and value-in-use calculated based on the discounted cash flow forecast of the respective CGUs. The recoverable amounts of these CGUs are finally determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a five-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

18 Goodwill (continued)

Impairment tests for CGUs containing goodwill (continued)

The key assumptions and parameters used for major value-in-use calculations as at 31 December 2023 and 2022 were as follows:

	Shanghai EHigher	Qingdao Aolipu Qizhi	Shanghai Compass
2023			
Revenue growth rate (%)	**2.2%-21.6%**	**2.2%-44.4%**	**2.2%-32.8%**
Gross profit margin (%)	**32.0%**	**45.0%-49.6%**	**46.5%-47.6%**
Pre-tax discount rate (%)	**15.4%**	**15.4%**	**15.4%**
2022			
Revenue growth rate (%)	7.9%-36.8%	7.7%-63.5%	—
Gross profit margin (%)	28.6%-31.0%	47.0%-48.2%	—
Pre-tax discount rate (%)	15.4%	15.4%	—

Management has determined the values assigned to each of the above key assumptions and parameters as follows:

Assumption	Approach used to determine values
Revenue growth rate	Annual growth rate over the five-year forecast period; based on current industry trends, past performance and management's expectations for the future.
Gross profit margin	Historic performance and management's expectations for the future.
Pre-tax discount rate	Specific risks relating to the relevant segments and the country in which they operate.

There was no impairment required from the review on goodwill as at 31 December 2023 and 2022. The directors and management have considered and assessed reasonably possible changes for key assumptions. Based on the headroom of the impairment assessments, the directors and management believed that any reasonably possible change in any of the key assumptions would not result in an impairment provision of goodwill.

19 Other non-current assets

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Deposits	**9,144**	13,948
Prepayments (non-current portion)	**1,146**	10,819
	10,290	24,767

20 Financial instruments by category

		As at 31 December	
	Note	2023	2022
		RMB'000	RMB'000
Financial assets at fair value:			
Financial assets at FVTOCI	24	**12,203**	5,310
Financial assets at FVTPL	25	**103,826**	156,020
		116,029	161,330
Financial assets at amortised cost:			
Other non-current assets	19	**9,144**	13,948
Trade and notes receivables	22	**671,547**	571,935
Other receivables	23	**18,607**	36,235
Restricted cash	26	**20,533**	9,915
Cash and cash equivalents	26	**1,344,615**	1,642,665
		2,064,446	2,274,698
		2,180,475	2,436,028

20 Financial instruments by category (continued)

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Financial liabilities at fair value:			
Financial liabilities at FVTPL	36	**174,355**	147,537
Financial liabilities at amortised cost:			
Trade and notes payables	34	**353,707**	280,324
Other payables and accruals (excluding other tax payables, payroll and welfare payables and warranty)	35	**120,809**	79,045
Lease liabilities	16	**79,736**	90,111
Borrowings	33	**76,651**	57,590
		630,903	507,070
		805,258	654,607

21 Inventories

	As at 31 December 2023 RMB'000	2022 RMB'000
Raw materials	**32,857**	26,370
Work in progress	**96,296**	81,405
Finished goods	**2,994**	1,555
	132,147	109,330
Less: allowance for impairment of inventories	**(1,518)**	(1,558)
	130,629	107,772

The cost of inventories recognized as expenses and included in cost of sales amounted to RMB1,162,560,000 and RMB1,050,565,000 for the years ended 31 December 2023 and 2022 respectively.

The Group reversed RMB40,000 of a previous inventory write-down in June 2023, as the Group sold the relevant goods that had been written down. The amount reversed has been included in "cost of sales" in the statement of comprehensive income.

22 Trade and notes receivables

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Trade receivable	**789,512**	627,302
Less: Provision for impairment	**(169,063)**	(88,432)
	620,449	538,870
Notes receivables	**51,098**	33,065
	671,547	571,935

As at 31 December 2023 and 2022, notes receivables were bank and commercial notes receivables aged less than six months.

The majority of the Group's receivables are with credit term mostly from 30 days to 180 days. At 31 December 2023 and 2022, the aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Trade receivable		
Less than 3 months	**323,794**	367,696
3 months to 6 months	**101,583**	92,954
6 months to 12 months	**202,717**	94,906
1 year to 2 years	**143,794**	45,865
2 years to 3 years	**17,624**	25,881
	789,512	627,302

For the trade receivables, the Group has assessed the expected credit losses by taking into account historical default rates, existing market conditions and forward-looking information. Based on the assessment, the creation and reversal for impaired receivables have been included in the net impairment losses on financial assets. Amounts charged to allowance account are written off when there is no expectation of receiving the receivables.

22 Trade and notes receivables (continued)

The carrying amounts of the Group's trade and notes receivables, excluding provision for impairment, are denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	**837,156**	648,583
USD	**3,370**	11,127
EUR	**84**	657
	840,610	660,367

23 Prepayments and other receivables

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Other receivables		
– Deposits	**12,658**	8,371
– Staff advances	**2,011**	1,749
– Deposits for share repurchase	**515**	16,296
– Other receivables from related parties	**—**	578
– Others	**15,661**	11,546
Other receivables, gross	**30,845**	38,540
Provision for impairment	**(12,238)**	(2,305)
Other receivables, net	**18,607**	36,235
Prepayments to vendors	**48,460**	109,322
Recoverable value–added tax ("VAT")	**151,142**	45,424
Recoverable income tax	**695**	536
	218,904	191,517

23 Prepayments and other receivables (continued)

The carrying amounts of the Group's other receivables, excluding provision for impairment, are denominated in the following currencies:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
RMB	**30,845**	22,244
HKD	**—**	16,296
	30,845	38,540

The carrying amounts of other receivables approximate their fair values as at the balance sheet dates.

24 Financial assets at fair value through other comprehensive income

The financial assets at FVTOCI comprise:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Current		
Debt investments		
– Notes receivables aged less than six months	**3,203**	5,310
Non-Current		
Equity investments		
– Beijing Tongwei Private Equity Management Co., Ltd.	**9,000**	—
	12,203	5,310

The Group made investment in a private equity management company with amount of RMB9,000,000 in August 2023 and designated above investments at fair value through other comprehensive income, as the investment are held for strategic purpose.

25 Financial assets at fair value through profit or loss

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Investment fund (a)	**48,481**	69,260
Wealth management products (b)	**14,500**	14,125
Listed equity securities (c)	**2,438**	2,920
Other financial investment instrument (d)	**38,407**	69,715
	103,826	156,020

(a) In April 2022, the Company made investment in a private equity fund, with amount of RMB73,150,000, and the Company made additional subscription funds with amount of RMB10,000,000 and RMB8,000,000 respectively in October and December 2023. The private equity fund represented assets measured at fair value, and the fair value was determined using valuation model for which not all inputs are observable and was therefore within level 3 of the fair value hierarchy (Note 3.3). Changes in fair value of the private equity fund was recognized in other losses, net.

(b) The wealth management products represented the financial products issued by public monetary funds. The public monetary fund mainly invests in financial instruments permitted by laws and regulations, including cash, short-term bank deposits, bond repurchase, bank bills and other money market instruments with good liquidity.

(c) The listed equity securities are listed stocks purchased in the public secondary market. The fair values of the listed securities were determined based on the closing price quoted in active markets.

(d) In June 2022, the Company invested about RMB71,890,000 to purchase a total return swaps financial product, swapped out fixed interest, and exchanged in the income or loss of the equivalent shares of a listed stock. The Company made additional subscription funds with amount of RMB5,000,000 in October 2023. The product was accounted for assets measured at fair value, and the fair value was determined using the observable inputs, and is therefore within level 2 of the fair value hierarchy (Note 3.3).

26 Cash and cash equivalents and restricted cash

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash at bank and in hand	**1,365,148**	1,652,580
Less: Restricted cash	**(20,533)**	(9,915)
Cash and cash equivalents	**1,344,615**	1,642,665

The breakdown of restricted cash by nature as at 31 December 2023 and 2022 is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Deposits for issue of bank acceptance notes payable	**13,923**	4,686
Deposits for issue of letters of guarantee (i)	**3,107**	5,064
Deposits for borrowing (Note 33)	**2,003**	—
Deposits for issuing letters of credit	**1,000**	—
Other restricted cash	**500**	165
	20,533	9,915

(i) There are no material contingent liabilities relating to issue of letters of guarantee.

26 Cash and cash equivalents and restricted cash (continued)

Cash at bank and in hand are denominated in the following currencies:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
RMB	**1,362,587**	1,595,762
USD	**1,943**	1
EUR	**550**	—
SGD	**67**	—
HKD	**1**	56,817
	1,365,148	1,652,580

27 Share capital and share premium

The movements in share capital and share premium are set out below:

	Number of issued and fully paid shares	**Share capital**	**Share premium**	**Total**
		RMB'000	**RMB'000**	**RMB'000**
As at 31 December 2021	514,560,438	514,560	1,674,871	2,189,431
Issuance of ordinary shares (i)	44,744,400	44,745	888,107	932,852
As at 31 December 2022	559,304,838	559,305	2,562,978	3,122,283
Issuance of ordinary shares (ii)	19,900,000	19,900	329,182	349,082
Shares cancelled (iii)	(14,154,100)	(14,154)	(260,580)	(274,734)
As at 31 December 2023	**565,050,738**	**565,051**	**2,631,580**	**3,196,631**

27 Share capital and share premium (continued)

(i) On 27 January 2022, the Company completed its listing on The Stock Exchange of Hong Kong Limited with 44,744,400 shares of the Company issued at an offer price of HK$26.3 per share. The issuance of 44,744,400 shares, net of underwriting commission and other issuance cost, led to an increase of share capital and share premium by approximately RMB44,745,000 and RMB888,107,000, respectively.

(ii) On 6 June 2023, the Company entered into the placing agreement for the placing of up to 19,900,000 new shares at the placing price of HK$19.7 per share. The issuance of 19,900,000 shares, net of underwriting commission and other issuance cost, led to an increase of share capital and share premium by approximately RMB19,900,000 and RMB329,182,000, respectively.

(iii) On 22 May 2023, the cumulative shares repurchased by the Company of 14,154,100 shares were cancelled (Note 28).

28 Treasury shares

	For the year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
At the beginning of the year	**258,821**	—
Shares repurchased under Share Repurchase Mandate (i)	**15,913**	258,821
Shares repurchased through a trustee (ii)	**264,349**	—
Shares cancelled (iii)	**(274,734)**	—
At the end of the year	**264,349**	258,821

(i) Pursuant to a resolution by the shareholders of the Company at the annual general meeting held on 10 May 2022, the Board of Directors of the Company was granted a general mandate (the "Share Repurchase Mandate") to repurchase shares of the Company up to no more than 10% of the total number of the shares of the Company in issue at the time of the passing of the resolution at the annual general meeting. On 16 May 2022, the Board of Directors of the Company duly resolved to exercise the above Share Repurchase Mandate to repurchase the shares of the Company in the open market for an amount not exceeding HK$315,000,000, during the repurchase period from 10 May 2022 to the end of the 2022 annual general meeting.

For the year ended 31 December 2022, the number of shares repurchased by the Company totalled 13,320,400 shares with total consideration amounting to approximately HK$296,174,000 (equivalent to approximately RMB258,821,000).

For the year ended 31 December 2023, the number of shares repurchased by the Company totalled 833,700 shares with total consideration amounting to approximately HK$18,175,000 (equivalent to approximately RMB15,913,000).

(ii) In addition, during the year ended 31 December 2023, the Company, through a trustee, repurchased 15,262,000 shares at a total cash consideration of approximately HK$353,049,000 (equivalent to approximately RMB264,349,000) on the Hong Kong Stock Exchange. The repurchased shares were recognized as treasury shares and will be fully used as awards shares under a new equity incentive scheme (Note 30).

(iii) For the year ended 31 December 2023, the number of shares cancelled by the Company totalled 14,154,100 shares with total consideration amounting to approximately HK$314,349,000 (equivalent to approximately RMB274,734,000).

29 Other reserves

Other reserves of the Group during the reporting periods comprises changes in the fair value of certain investments in equity securities at faie value through other comprehensive income, deduction arising from transactions with non-controlling interests, share-based payment reserve, and currency translation differences.

	Share-based payment reserve RMB'000	Currency translation differences RMB'000	Other reserves RMB'000	Total RMB'000
Balance at 31 December 2021	617,286	—	(118,796)	498,490
Share-based payment expenses (Note 30)	173,294	—	—	173,294
Currency translation differences	—	98	—	98
Balance at 31 December 2022	790,580	98	(118,796)	671,882
Share-based payment expenses (Note 30)	290,271	—	—	290,271
Currency translation differences	—	(35)	—	(35)
Transactions with non-controlling interests	—	—	(12,826)	(12,826)
Balance at 31 December 2023	**1,080,851**	**63**	**(131,622)**	**949,292**

30 Share-based payments

(a) Old Employee Incentive Scheme

The Group has adopted the Employee Incentive Scheme since 2018 and share-based compensation benefits are provided to certain directors, senior management, employees and consultants via the Company's share incentive schemes, which includes the grant of RSUs through several limited partnership entities, as rewards for their services, full time devotion and professional expertise to the Company and certain of its subsidiaries.

10 unit RSUs granted before the Company converted into stock company are equivalent to 1 Unit Capital and equivalent to 18 share capital of the Company after the Company converted into stock company and completed the share conversion from share premium into share capital at the conversion ratio of 1:17 during the year ended 31 December 2021.

The following table summarizes the Group's RSU activities:

	Year ended 31 December	
	2023	**2022**
	Number of RSUs	**Number of RSUs**
	'000	**'000**
Granted but not yet vested at the beginning of the year	**19,459**	33,213
Granted during the year	**1,383**	7,930
Forfeited during the year	**(4,000)**	(8,211)
Vested during the year	**(7,141)**	(13,473)
Granted but not yet vested at the end of the year	**9,701**	19,459

The share-based payment expenses in relation to RSUs will be amortized according to different vesting schedules which mainly range from one year to four years with the proportion of achieving performance conditions.

30 Share-based payments (continued)

(a) Old Employee Incentive Scheme (continued)

The inputs into the model

The fair values of RSUs granted to certain directors, senior management, employees and consultants during the reporting years were as follows:

	Year ended 31 December	
	2023	2022
	RMB	RMB
Fair value of one RSU	**29.54~38.36**	24.86~37.86

(b) 2023 Employee Incentive Scheme

At the extraordinary general meeting of shareholders on 13 January 2023, the Company adopted a directors and management equity incentive scheme ("the Scheme") for the purpose to encourage, motivate and retain directors and management personnel who contribute to the Group's continued operation, development and long-term growth, to enhance the Company's appeal for new talents, and to send positive signals to the market and boost market confidence.

All shares granted are subject to a vesting period of 36 months or less commencing from the grant date. The vesting date of the restricted shares granted under the Scheme is the earlier of (i) the date of the announcement of the Company's annual results with adjusted net profit or loss being positive, or, for the avoidance of doubt, the date of expiry of 12 months from the granting date if less than 12 months have elapsed from the granting date to the date of the announcement of the Company's annual results with adjusted net profit or loss being positive; or (ii) the expiry of 36 months from the granting date. As at the vesting date, the participants will be entitled to the related shares provided that the participants are still in employment with the Company unless otherwise specified in the granting notice approved by the Board or its authorised persons.

30 Share-based payments (continued)

(b) 2023 Employee Incentive Scheme (continued)

On 28 February 2023, 25,000,000 restricted shares were granted at the grant price of HK$3.056 per share (equivalent to approximately RMB2.71 per share). The fair value of restricted shares granted was determined at HK$15.28 per share (equivalent to approximately RMB13.54 per share) based on the closing price of Company's share as at the grant date. In December 2023, 9,737,700 restricted shares were revoked by the Group. The Group accounted for the revocation as an acceleration of vesting, and therefore recognize share-based payment expenses immediately with the amount of RMB79,101,000 that otherwise would have been recognized for services received over the remainder of the vesting period. The grant price, grant date and vesting date of the remaining 15,262,300 restricted shares stays unchanged.

	Number of restricted shares granted '000
As at 1 January 2023	**—**
Granted during the year	**25,000**
Revoked during the year	**(9,738)**
As at 31 December 2023	**15,262**

The details of shares revoked are set out below:

	Number of restricted shares revoked '000
Directors	**2,272**
The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2023 (excluding Mr. Xu Hui)	**2,865**
Other employees	**4,601**
	9,738

30 Share-based payments (continued)

(b) 2023 Employee Incentive Scheme (continued)

In order to operate the Scheme, the Company entrusted a qualified agent, an independent third party, to act as the trustee for the restricted shares of the Company granted under the Scheme, and the trustee will further acquire shares of the Company through open market transactions at the prevailing market price as the source of award shares. The Company instructed the trustee to purchase and/or dispose shares under the Scheme, thus the financial statements of the Scheme are consolidated in the consolidated financial steatments of the Group.

For the year ended 31 December 2023, the Company repurchased 15,262,000 shares at a total cash consideration of approximately HK$353,049,000 (equivalent to approximately RMB264,349,000) on the Hong Kong Stock Exchange through the trustee (Note 28). The repurchased shares were recognized as treasury shares and were fully used as awards shares under the Scheme.

Shares held by the trustee under the Scheme are shown below:

	As at 31 December 2023 Number of shares '000
Shares held under the Scheme	**15,262**

As at 31 December 2023, amount of RMB41,326,000 were received from the participants of the Scheme and recorded under "Other payables and accruals" (Note 35).

Share-based payment expenses of RMB290,271,000 have been recognized in profit or loss for years ended 31 December 2023 (2022: RMB173,294,000).

31 Other non-current liabilities

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Government grants	**6,636**	15,523

Government grants provided to the Group mainly related to financial subsidy from the local government in the PRC.

The amount of government grants that credited to the statement of comprehensive income is disclosed in Note 9.

32 Deferred income tax

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**124**	17
– to be recovered within 12 months	**9,486**	4,551
Offset by deferred tax liabilities	**(9,610)**	(4,568)
	—	—
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(43,109)**	(27,755)
– to be recovered within 12 months	**(7,178)**	(4,135)
Offset by deferred tax assets	**9,610**	4,568
	(40,677)	(27,322)

32 Deferred income tax (continued)

(i) Deferred tax assets

	As at 31 December 2023 RMB'000	2022 RMB'000
The balance comprises temporary differences attributable to:		
Provision for impairment of inventories and loss allowance of trade receivables	**7,461**	3,608
Accrued employee benefits	**1,389**	647
Fair value change on financial liabilities at FVTPL	**309**	296
Lease liabilities	**451**	17
Total deferred tax assets	**9,610**	4,568

The movements in deferred income tax assets are as follows:

	Provisions and accruals RMB'000	Accrued employee benefits RMB'000	Fair Value change on financial liabilities at FVTPL RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2023	**3,608**	**647**	**296**	**17**	**4,568**
Acquisition of a subsidiary (Note 40)	**233**	**—**	**—**	**5**	**238**
Credited to profit or loss	**3,620**	**742**	**13**	**429**	**4,804**
At 31 December 2023	**7,461**	**1,389**	**309**	**451**	**9,610**
At 1 January 2022	—	—	—	—	—
Acquisition of subsidiaries (Note 40)	2,045	—	256	—	2,301
Credited to profit or loss	1,563	647	40	17	2,267
At 31 December 2022	3,608	647	296	17	4,568

32 Deferred income tax (continued)

(ii) Deferred tax liabilities

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
The balance comprises temporary differences attributable to:		
Intangible assets	**(49,505)**	(31,510)
Right-of-use assets	**(704)**	(297)
Property, plant and equipment	**(78)**	(83)
Total deferred tax liabilities	**(50,287)**	(31,890)

The movements in deferred income tax liabilities are as follows:

	Right-of-use assets	**Intangible assets**	**Property, plant and equipment**	**Inventory**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2023	**(297)**	**(31,510)**	**(83)**	**—**	**(31,890)**
Acquisition of a subsidiary (Note 40)	**—**	**(23,552)**	**—**	**(122)**	**(23,674)**
(Charged)/Credit to profit or loss	**(407)**	**5,557**	**5**	**122**	**5,277**
At 31 December 2023	**(704)**	**(49,505)**	**(78)**	**—**	**(50,287)**
At 1 January 2022	—	—	—	—	—
Acquisition of subsidiaries (Note 40)	—	(33,675)	(84)	(43)	(33,802)
(Charged)/Credit to profit or loss	(297)	2,165	1	43	1,912
At 31 December 2022	(297)	(31,510)	(83)	—	(31,890)

32 Deferred income tax (continued)

(iii) Unrecognized deferred income tax

The information of the expiration of tax losses carried forward for which deferred income tax assets is not recognized is as follows:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Tax losses expiring within 1 year	**5,733**	571
Tax losses expiring between 1-2 years	**19,266**	2,149
Tax losses expiring between 2-3 years	**33,664**	20,546
Tax losses expiring between 3-4 years	**54,160**	46,683
Tax losses expiring between 4-5 years	**158,364**	35,421
Tax losses expiring between 5-6 years	**179,762**	48,445
Tax losses expiring between 6-7 years	**148,178**	184,311
Tax losses expiring between 7-8 years	**178,386**	159,385
Tax losses expiring between 8-9 years	**218,573**	165,273
Tax losses expiring between 9-10 years	**266,547**	218,703
	1,262,633	881,487

Unrecognized temporary differences are as follows:

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Temporary difference for which no deferred tax asset was recognized:		
– Provisions for impairment	**133,389**	67,941
– Accrued expenses and others	**149,455**	157,808
	282,844	225,749

33 Borrowings

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Current		
– Borrowings in relation to discounting notes receivable (i)	**1,251**	640
– Bank loans, secured (ii)	**6,000**	6,000
– Bank loans, guaranteed (iii)	**57,400**	45,950
– Bank loans, unsecured	**12,000**	5,000
	76,651	57,590

(i) As at 31 December 2023, borrowings in relation to discounting notes receivable with aggregated amount of RMB1,251,000 represented the proceeds received from the discounting of the Group's notes receivable with recourse. As these notes receivable had not yet matured, the proceeds were recorded as borrowings.

(ii) As at 31 December 2023, secured bank loans with aggregated amount of RMB6,000,000 were secured by the pledge of a property owned by Mr. Li Weiguo, the director and non-controlling shareholder of Qingdao Aolipu Qizhi.

(iii) As at 31 December 2023, the bank loans with aggregated amount of RMB57,400,000 were guaranteed by: 1) Mr. Chen Hong and Ms. Liao Lu, the directors and non-controlling shareholders of Shanghai EHigher, and a guarantee company to the extent of RMB15,000,000; 2) Mr. Chen Hong and a guarantee company to the extent of RMB10,000,000; 3) Mr. Ma Li, the director and non-controlling shareholder of Shanghai Compass, his spouse and the pledge of a property owned by Mr. Ma Li to the extent of RMB 9,000,000; 4) Mr. Chen Hong to the extent of RMB7,000,000; 5) Mr. Li Weiguo and deposits of RMB2,003,000 to the extent of RMB5,000,000; 6) Mr. Chen Hong and Ms. Liao Lu to the extent of RMB3,000,000; 7) a guarantee company to the extent of RMB3,000,000; 8) Mr. Ma Li, his spouse and a guarantee company to the extent of RMB3,000,000; 9) Mr. Li Weiguo and a guarantee company to the extent of RMB2,400,000.

For the year ended 31 December 2023, the interest rates relating to the Group's borrowings ranged from 2.90% to 4.50% per annum (31 December 2022: 1.60% to 4.45% per annum). The borrowings of the Group are all loans denominated in RMB.

34 Trade and notes payables

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Accounts payable	**317,711**	275,700
Notes payable	**35,996**	4,624
	353,707	280,324

As at 31 December 2023 and 2022, the aging analysis of the trade and notes payables based on transaction date were as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 3 months	**211,437**	206,126
Between 3 months and 6 months	**66,653**	25,872
Between 6 months and 1 year	**31,963**	24,005
Between 1 year and 2 years	**33,550**	18,846
Between 2 years and 3 years	**10,104**	5,475
	353,707	280,324

The carrying amounts of trade and notes payables approximate their fair values as at the balance sheet dates.

35 Other payables and accruals

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Payroll and welfare payables	**60,951**	80,917
Accruals and other payables	**55,108**	51,164
Repurchase obligation of the employee equity incentive scheme (Note 30)	**41,326**	—
Other taxes payable	**27,427**	18,723
Other payables to related parties	**15,099**	20,148
Interest payable on convertible bond	**9,276**	7,733
Warranty	**1,621**	3,838
	210,808	182,523

The carrying amounts of other payables and accruals approximate their fair values as at the balance sheet dates.

36 Financial liabilities at fair value through profit or loss

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contingent considerations (a)	**174,355**	117,606
Convertible bond (b)	**—**	29,931
	174,355	147,537

(a) In May 2022 and 2023, the Company entered into transfer agreements with the then shareholders of three companies to acquire an aggregate 51% interests in each of the three companies with fixed considerations and contingent considerations which would be adjusted according to the performance commitments of the three companies. The contingent considerations represented liabilities measured at fair value, and the fair values were determined using valuation model for which not all inputs are observable and are therefore within level 3 of the fair value hierarchy (Note 3.3).

36 Financial liabilities at fair value through profit or loss (continued)

The movements of contingent considerations for the year ended 31 December 2022 and 2023 are set out below:

	Contingent considerations RMB'000
Opening balance as at 1 January 2022	—
Acquisition of subsidiaries	109,416
Change in fair value	8,190
Closing balance as at 31 December 2022	117,606
Acquisition of a subsidiary	86,743
Payments of contingent considerations	(45,017)
Change in fair value	15,023
Closing Balance as at 31 December 2023	174,355

(b) Jiangsu Epsa Automation Technology Co., Ltd. ("Jiangsu Epsa"), a subsidiary acquired by the Group in May 2022, entered into an investment agreement with an investor for the issuance of convertible bond with principal amount of RMB30,000,000 in October 2019. According to the terms of the investment agreement, during the 48 months since the date of issuance, at the investor's option, the conversion right would be exercisable on the investor's demand in exchange for shares of Jiangsu Epsa, and the investor has the right to request Jiangsu Epsa to redeem the convertible bond or shares if converted, with 100% of its issue price plus 8% interest rate per annum.

The conversion price was based on negotiation between Jiangsu Epsa and the investor. The Group designated the entire hybrid contract at fair value through profit or loss and recognized financial liabilities of RMB29,931,000 as at 31 December 2022. The convertible bond had been repaid by the year ended 31 December 2023.

37 Contract liabilities

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contract liabilities		
– Sales of products and solutions	**121,778**	105,486

(i) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue recognized that was included in the balance of contract liabilities at the beginning of the year	**77,905**	42,333

(ii) Unsatisfied performance obligations

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Sales of products and solutions, to be recognized:		
– Within 1 year	**509,589**	486,031
– After 1 year but less than 3 years	**88,850**	29,183
	598,439	515,214

The revenue relating to data solutions are recognized based on the actual usage by the customer and thus the Group applied the expedient under IFRS 15 for not disclosing of unsatisfied performance obligation.

38 Cash flow information

(a) Cash used in operations

The reconciliation from loss before income tax to cash used in operations is as follows:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Loss before income tax	**(579,535)**	(361,672)
Adjustment for:		
Depreciation of property, plant, and equipment and right-of-use assets and amortisation of intangible asset	**92,575**	72,528
(Gains)/losses on disposal of property, plant and equipment and right-of-use assets	**(1,851)**	334
Fair value losses on financial assets and liabilities at FVTPL	**89,683**	8,716
Interests received on financial assets at FVTPL	**(3,847)**	(632)
Interest expenses on lease liabilities	**4,188**	4,227
Interest income	**(29,050)**	(38,708)
(Reserved)/provision for write-down of inventories	**(18)**	1,126
Net impairment losses on financial assets	**86,802**	37,022
Share-based payment expenses	**290,271**	173,294
Share of loss of investments accounted for using the equity method	**342**	575
Interest expenses on bank borrowings	**2,842**	2,462
Interest expenses on convertible bond	**1,543**	1,400
Net foreign exchange losses/(gains)	**5,208**	(5,727)
Operating loss before changes in working capital	**(40,847)**	(105,055)
Changes in working capital:		
(Increase)/decrease in inventories	**(10,246)**	132,532
Increase in trade and notes receivables	**(168,079)**	(132,998)
Increase in prepayments and other receivables	**(45,467)**	(65,519)
Decrease in other operating assets	**3,865**	9,588
Increase/(decrease) in trade and notes payables	**72,886**	(34,614)
Decrease in contract liabilities	**(349)**	(152,137)
(Decrease)/increase in other operating liabilities	**(17,768)**	4,159
Cash used in operations	**(206,005)**	(344,044)

38 Cash flow information (continued)

(b) Major non-cash transaction

For the year ended 31 December 2023, the Group endorsed bank notes receivables to suppliers for purchase of goods amounting to approximately RMB113,218,000 (2022: RMB56,967,000).

(c) Net debt reconciliation

	Cash and cash equivalents RMB'000	Lease liabilities RMB'000	Borrowings (including related party borrowing) RMB'000	Convertible bond RMB'000	Total RMB'000
Net debt as at 31 December 2021	1,553,150	(87,571)	—	—	1,465,579
Cash flows	88,578	10,095	(20,257)	—	78,416
Acquisitions and other non-cash movement	937	(12,635)	(56,703)	(29,931)	(98,332)
Net debt as at 31 December 2022	1,642,665	(90,111)	(76,960)	(29,931)	1,445,663
Cash flows	(293,197)	27,682	(152)	30,000	(235,667)
Acquisitions and other non-cash movement	(4,853)	(17,307)	(14,109)	(69)	(36,338)
Net debt as at 31 December 2023	**1,344,615**	**(79,736)**	**(91,221)**	**—**	**1,173,658**

39 Capital commitments

As at 31 December 2023 and 2022, the Group had the following capital commitments:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contracted but not provided for		
– Leasehold improvement	**377**	1,613

40 Business combination

During the year ended 31 December 2023, the Group acquired 51% equity interests of Shanghai Compass, a company engaged in computer information technology consulting, big data analysis, and business intelligence solutions, at total consideration of RMB201,493,000, of which, RMB114,750,000 was paid in cash and RMB86,743,000 represented the contingent consideration that were recognized as financial liabilities at FVTPL (Note 36). Shanghai Compass became a subsidiary of the Group since 31 May 2023. The purchase resulted in a net cash outflow of RMB87,867,000 for the year ended 31 December 2023.

The following table summarizes the consideration paid, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date.

	RMB'000
Total purchase consideration	
Cash considerations paid	114,750
Contingent considerations recognized as financial liabilities at FVTPL	86,743
	201,493

40 Business combination (continued)

	RMB'000
Total recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	356
Right-of-use assets	845
Intangible assets (a)	157,841
Deferred income tax assets	238
Inventories	12,571
Trade and notes receivables	8,505
Prepayments and other receivables	8,053
Financial assets at fair value through profit or loss	10
Recoverable value-added tax	1,660
Restricted cash	6
Cash and cash equivalents	26,883
Lease liabilities	(513)
Deferred income tax liabilities	(23,674)
Borrowings	(14,109)
Trade and notes payables	(497)
Other payables and accruals	(26,906)
Contract liabilities	(16,641)
Total identified net assets	134,628
Less: Non-controlling interests	(65,968)
Total identified net assets acquired by the Group	68,660
Goodwill arising on acquisition:	
Total purchase consideration	201,493
Less: Total identified net assets acquired by the Group	(68,660)
Goodwill arising on acquisition (b)	132,833
Outflow of cash to acquire business, net of cash acquired:	
Cash considerations paid	(114,750)
Cash and cash equivalents in the entities acquired	26,883
Net cash outflow from the acquisition	(87,867)

40 Business combination (continued)

(a) The identified intangible assets of RMB157,841,000 represented customer relationship and technology. They are initially recognized and measured at fair value as they are acquired in business combinations. When determining the length of useful lives of these intangible assets, management take into account (i) the estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful lives estimated by comparable companies in the market.

(b) The goodwill of RMB132,833,000 represented the excess of the purchase consideration over the fair value of the net identifiable assets acquired. The goodwill recorded, not deductible for tax purposes, is primarily attributable to the rich industry implementation experience in vertical segmentation industries of Shanghai Compass that the Group can leverage to further expand into the relevant industry for the continuous iteration of AI products and solutions.

41 Related party transactions

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

41 Related party transactions (continued)

(a) The directors of the Company are of the view that the following parties/companies were related parties that had transactions or balances with the Group during the reporting periods:

Name of related parties	Relationship with the Company
Sinovation Ventures (Beijing) Enterprise Management Limited ("Sinovation Ventures")	Shareholder of the Company
CISDI (Chongqing) Information Technology Co., Ltd. ("CISDI Information")	Non-controlling shareholder of a subsidiary
CISDI Group Co., Ltd.	The parent company of CISDI Information
CISDI Engineering Co., Ltd.	Controlled by CISDI Group Co., Ltd.
CISDI Engineering Management Consultants Co., Ltd.	Controlled by CISDI Group Co., Ltd.
Shanghai Desmart Information Technology Co., Ltd. ("Shanghai Desmart")	Controlled by a non-controlling shareholder of a subsidiary
Mr. Chen Hong	Director and non-controlling shareholder of a subsidiary
Mr. Li Weiguo	Director and non-controlling shareholder of a subsidiary
Ms. Liao Lu	Director and non-controlling shareholder of a subsidiary
Mr. Liu Qian	Director and non-controlling shareholder of a subsidiary
Qingdao Aolipu Intelligence Manufacturing Research Institute Co., Ltd. ("Aolipu Intelligence")	Associate of the Group
Aolipu (Beijing) Intelligence Technology Co., Ltd. ("Beijing Aolipu")	Associate of the Group

Other than as disclosed elsewhere in this report, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the reporting period.

41 Related party transactions (continued)

(b) Transactions with related parties

Significant related party transactions of the Group are listed as follows:

		Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
(i)	**Sales and services to related parties**		
	Shanghai Desmart	**20,882**	—
	CISDI Group Co., Ltd. and its subsidiaries	**6,285**	64,876
	Sinovation Ventures	**749**	5,758
		27,916	70,634
(ii)	**Services provided by related parties**		
	CISDI Group Co., Ltd. and its subsidiaries	**—**	512
(iii)	**Loans to a related party**		
	Mr. Liu Qian	**13,500**	—
(iv)	**Repayment of loans from a related party**		
	Mr. Liu Qian	**13,500**	—
(v)	**Received loans from a related party**		
	Mr. Li Weiguo	**6,900**	19,370
(vi)	**Repayment of loans to a related party**		
	Mr. Li Weiguo	**11,700**	—

41 Related party transactions (continued)

(c) Balances with related parties

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
(i) Receivables from related parties		
Trade		
Trade receivable		
– CISDI Group Co., Ltd. and its subsidiaries	**14,296**	37,122
– Shanghai Desmart	**7,800**	—
– Sinovation Ventures	**334**	3,827
	22,430	40,949
Provisions	**(6,350)**	(3,436)
	16,080	37,513
Non-Trade		
Other receivables		
– Beijing Aolipu	**—**	578
	—	578

41 Related party transactions (continued)

(c) Balances with related parties (continued)

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
(ii) Payables to related parties		
Trade		
Contract liabilities		
– CISDI Group Co., Ltd. and its subsidiaries	**—**	303
Non-Trade		
Other payables and accruals		
– Mr. Li Weiguo	**15,099**	19,899
– Aolipu Intelligence	**—**	249
	15,099	20,148

(d) Key management compensation

Key management includes directors (executive and non-executive), supervisors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
Salaries, bonus and other welfare	**10,674**	14,407
Share-based payment expenses	**107,351**	100,678
	118,025	115,085

42 Balance sheet and reserve movement of the Company

(a) Balance sheet of the Company

	As at 31 December	
	2023	**2022**
	RMB'000	**RMB'000**
ASSETS		
Non-current assets		
Investment in subsidiaries	**1,169,275**	671,630
Property, plant and equipment	**17,246**	25,363
Right-of-use assets	**857**	—
Intangible assets	**1,173**	1,775
Other non-current assets	**1,146**	15,737
	1,189,697	714,505
Current asset		
Inventories	**307**	486
Prepayments and other receivables	**1,214,522**	888,273
Trade and notes receivables	**353,044**	255,446
Financial assets at fair value through profit or loss	**101,388**	153,100
Cash and cash equivalents	**1,200,920**	1,498,419
	2,870,181	2,795,724
Total assets	**4,059,878**	3,510,229

42 Balance sheet and reserve movement of the Company (continued)

(a) Balance sheet of the Company (continued)

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
EQUITY		
Equity attributable to owners of the Company		
Share capital	**565,051**	559,305
Share premium	**2,631,580**	2,562,978
Less: Treasury share	**—**	(258,821)
Other reserves	**1,080,851**	790,580
Accumulated losses	**(837,840)**	(530,042)
Total equity	**3,439,642**	3,124,000
LIABILITIES		
Non-current liabilities		
Lease liabilities	**48**	—
Financial liabilities at fair value through profit or loss	**37,307**	73,166
	37,355	73,166
Current liabilities		
Lease liabilities	**662**	—
Trade and notes payables	**220,595**	180,729
Contract liabilities	**3,839**	4,559
Other payables and accruals	**314,437**	83,335
Financial liabilities at fair value through profit or loss	**43,348**	44,440
	582,881	313,063
Total liabilities	**620,236**	386,229
Total equity and liabilities	**4,059,878**	3,510,229

The balance sheet of the Company was approved by the board of directors of the Company on 28 March 2024 and was signed on its behalf by:

Xu Hui
Director

Wang Hua
Director

42 Balance sheet and reserve movement of the Company (continued)

(b) Reserve movements of the Company

	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 31 December 2021	617,286	(348,307)	268,979
Loss for the year	—	(181,735)	(181,735)
Transactions with owners in their capacity as owners			
– Share-based payment expenses (Note 30)	173,294	—	173,294
Balance at 31 December 2022	790,580	(530,042)	260,538
Loss for the year	—	(307,798)	(307,798)
Transactions with owners in their capacity as owners			
– Share-based payment expenses (Note 30)	290,271	—	290,271
Balance at 31 December 2023	**1,080,851**	**(837,840)**	**243,011**

43 Benefits and interests of directors

(a) Directors' and the chief executive officer's emoluments

For the year ended 31 December 2023:

Name	Fees	Wages, salaries and bonuses	Pension costs-defined contribution plans	Other social security and housing fund	Share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman:						
Dr. Kai-Fu Lee	—	—	—	—	—	—
Chief executive officer:						
Mr. Xu Hui (i)	—	2,461	68	66	43,562	46,157
Directors:						
Mr. Wang Hua	—	—	—	—	—	—
Mr. Wang Jinqiao	363	—	—	—	—	363
Mr. Xie Deren (i)	454	—	—	—	8,074	8,528
Ms. Jin Keyu	363	—	—	—	—	363
Ms. Gao Yingxin	363	—	—	—	—	363
Supervisor:						
Ms. Lin Ying	—	—	—	—	—	—
Mr. Nie Mingming	—	443	41	34	—	518
Ms. Duan Chengjin	—	—	—	—	—	—
Total:	1,543	2,904	109	100	51,636	56,292

(i) Share-based payment expenses relating to Mr. Xu Hui and Mr. Xie Deren amount to RMB14,235,000 and RMB4,219,000 respectively are mainly due to the revocation of the RSU granted, and the remaining part of unamortized share-based payment expenses were recognized in the consolidated statement of comprehensive income immediately.

43 Benefits and interests of directors (continued)

(a) Directors' and the chief executive officer's emoluments (continued)

For the year ended 31 December 2022:

Name	Fees	Wages, salaries and bonuses	Pension costs-defined contribution plans	Other social security and housing fund	Share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman:						
Dr. Kai-Fu Lee	—	—	—	—	—	—
Chief executive officer:						
Mr. Xu Hui	—	1,900	63	63	67,689	69,715
Directors:						
Mr. Wang Hua	—	—	—	—	—	—
Mr. Wang Jinqiao*	97	—	—	—	—	97
Mr. Zhou Wei**	—	—	—	—	—	—
Mr. Xie Deren	432	—	—	—	—	432
Ms. Jin Keyu	346	—	—	—	—	346
Ms. Gao Yingxin	346	—	—	—	—	346
Supervisor:						
Ms. Lin Ying	—	—	—	—	—	—
Mr. Gu Xuan Richard**	—	—	—	—	—	—
Mr. Nie Mingming	—	268	36	31	—	335
Ms. Duan Chengjin*	—	—	—	—	—	—
Total:	1,221	2,168	99	94	67,689	71,271

* Mr. Wang Jinqiao was appointed as director in September 2022. Ms. Duan Chengjin was appointed as supervisor in September 2022.

** Mr. Zhou Wei resigned as director in July 2022. Mr. Gu Xuan Richard resigned as supervisor in September 2022.

43 Benefits and interests of directors (continued)

(a) Directors' and the chief executive officer's emoluments (continued)

(i) Directors' retirement benefits

None of the directors received or will receive any retirement benefits for the reporting periods.

(ii) Directors' termination benefits

None of the directors received or will receive any termination benefits for the reporting periods.

(iii) Consideration provided to third parties for making available directors' services

During the reporting periods, the Company did not pay consideration to any third parties for making available directors' services.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealing in favour of directors, controlled bodies corporate by and connected entities with such directors during the reporting periods.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the reporting periods.

44 Subsidiaries

As at 31 December 2023, the Company had direct and indirect interest in the following subsidiaries:

Company name	Type of legal entity	Country/Place and date of incorporation	Paid-in capital ('000)	Attributable equity interest to the Company	Principal activities and place of operation
AInnovation (Beijing) Technology Co., Ltd. (創新奇智(北京)科技有限公司)	Limited liability company	The PRC 24 April 2018	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Chongqing) Technology Co., Ltd. (創新奇智(重慶)科技有限公司)	Limited liability company	The PRC 7 June 2018	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Nanjing) Technology Co., Ltd. (創新奇智(南京)科技有限公司)	Limited liability company	The PRC 15 June 2018	RMB 6,820	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Guangzhou) Technology Co., Ltd. (創新奇智(廣州)科技有限公司) (ii)	Limited liability company	The PRC 3 July 2018	RMB 20,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Hefei) Technology Co., Ltd. (創新奇智(合肥)科技有限公司)	Limited liability company	The PRC 25 July 2018	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Chengdu) Technology Co., Ltd. (創新奇智(成都)科技有限公司)	Limited liability company	The PRC 26 February 2019	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
Chongqing CISAI Technology Co., Ltd. (重慶賽迪奇智人工智能科技有限公司)	Limited liability company	The PRC 29 March 2019	RMB 50,000	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Qingdao) Technology Co., Ltd. (創新奇智(青島)科技有限公司)	Limited liability company	The PRC 1 April 2019	RMB 20,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
RewinCloud (Chongqing) Technology Co., Ltd. (睿雲奇智(重慶)科技有限公司)	Limited liability company	The PRC 14 June 2019	RMB 164,750	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Shanghai) Technology Co., Ltd. (創新奇智(上海)科技有限公司)	Limited liability company	The PRC 30 September 2019	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC

44 Subsidiaries (continued)

As at 31 December 2023, the Company had direct and indirect interest in the following subsidiaries: (Continued)

Company name	Type of legal entity	Country/Place and date of incorporation	Paid-in capital ('000)	Attributable equity interest to the Company	Principal activities and place of operation
AInnovation (Xi'an) Technology Co., Ltd. (創新奇智(西安)科技有限公司)	Limited liability company	The PRC 28 October 2019	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Shenzhen) Technology Co., Ltd. (創新奇智(深圳)技術有限公司)	Limited liability company	The PRC 10 June 2020	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, equipment manufacture, in the PRC
China Railway Qizhi (Hefei) Technology Co., Ltd. (中鐵奇智(合肥)科技有限公司) (i)	Limited liability company	The PRC 2 February 2021	RMB 5,100	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Zhejiang) Technology Co., Ltd. (創新奇智(浙江)科技有限公司)	Limited liability company	The PRC 23 February 2021	RMB 10,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation (Bengbu) Technology Co., Ltd. (創新奇智(蚌埠)科技有限公司) (iii)	Limited liability company	The PRC 16 Janurary 2023	RMB 2,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation Yiming (Anhui) Technology Co., Ltd. (依明奇智(安徽)科技有限公司)	Limited liability company	The PRC 9 December 2022	RMB 1,000	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
Shanghai Zhicheng Zhiqi Technology Co., Ltd. (上海智成智奇科技有限公司)	Limited liability company	The PRC 26 January 2022	RMB 10,010	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
RewinCloud Pte. Ltd. (iii)	Limited liability company	Singapore 10 April 2023	Nil paid	100.00	Technology and software development, artificial intelligence research and product development, in Singapore
AInnovation Technology Pte. Ltd. (iii)	Limited liability company	Singapore 10 April 2023	Nil paid	100.00	Technology and software development, artificial intelligence research and product development, in Singapore
Chengdu AInnovation Caeri Technology Co., Ltd. (成都凱瑞奇智科技有限公司) (iii)	Limited liability company	The PRC 24 May 2023	RMB 4,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC

44 Subsidiaries (continued)

As at 31 December 2023, the Company had direct and indirect interest in the following subsidiaries: (Continued)

Company name	Type of legal entity	Country/Place and date of incorporation	Paid-in capital ('000)	Attributable equity interest to the Company	Principal activities and place of operation
Chengdu AInnovation Huacheng Technology Co., Ltd. (成都華成奇智科技有限公司) (iii)	Limited liability company	The PRC 18 September 2023	RMB 5,000	80.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation EHigher (Shanghai) Intelligence Technology Co., Ltd. (浩亞奇智(上海)智能科技股份有限公司)	Limited liability company	The PRC 21 July 2003	RMB 64,000	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
Qingdao Aolipu Qizhi Intelligent Industrial Technology Co., Ltd. (青島奧利普奇智智能工業技術有限公司)	Limited liability company	The PRC 5 February 2010	RMB 33,038	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
Shenzhen AInnovation Eye Technology Co., Ltd. (深圳慧眼奇智科技有限公司)	Limited liability company	The PRC 5 June 2017	RMB 12,200	80.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovition Anlian (Anhui) Technology Co., Ltd. (安聯奇智(安徽)科技有限公司)	Limited liability company	The PRC 30 November 2022	RMB 20,000	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
RewinCloud (Qingdao) Technology Co., Ltd. (睿雲奇智(青島)科技有限公司	Limited liability company	The PRC 3 June 2021	RMB 50,000	100.00	Technology and software development, artificial intelligence research and product development, in the PRC
Shanghai Jiaqian Construction Engineering Co., Ltd. (上海嘉乾建設工程有限公司) (iv)	Limited liability company	The PRC 30 November 2011	RMB 14,000	35.70	Housing, road and municipal construction, communication technology development, in the PRC
Shanghai HaoChen Asset Management Co., Ltd. (上海浩臣資產管理有限公司)	Limited liability company	The PRC 13 November 2015	RMB 10,000	51.00	Asset and investment management, enterprise management consulting, in the PRC
Jiangsu Epsa Automation Technology Co., Ltd. (江蘇易普莎自動化科技有限公司)	Limited liability company	The PRC 20 March 2019	Nil paid	51.00	Electromechanical equipment development, electromechanical technology development, in the PRC
Jiangsu Haimaike Intelligent Technology Development Co., Ltd. (江蘇海脈科智能科技發展有限公司) (iv)	Limited liability company	The PRC 5 June 2020	Nil paid	26.00	Technology and software development, artificial intelligence research and product development, in the PRC

44 Subsidiaries (continued)

As at 31 December 2023, the Company had direct and indirect interest in the following subsidiaries: (Continued)

Company name	Type of legal entity	Country/Place and date of incorporation	Paid-in capital ('000)	Attributable equity interest to the Company	Principal activities and place of operation
AInnovation EHigher (Qingdao) Intelligence Technology Co., Ltd. (浩亞奇智(青島)智能科技有限公司) (iii)	Limited liability company	The PRC 22 December 2023	Nil paid	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
ePSA Himatic GmbH	Limited liability company	Germany 9 January 2017	EUR 50	51.00	Technology and software development, artificial intelligence research and product development, in Germany
Ovipri (Shanghai) Intelligent Technology Co., Ltd. (奧為普利(上海)智能科技有限公司)	Limited liability company	The PRC 21 November 2019	RMB 2,679	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
Qingdao Aoliqizhi Technology Co., Ltd. (青島奧利奇智科技有限公司)	Limited liability company	The PRC 28 June 2022	Nil paid	51.00	Technology and software development, artificial intelligence research and product development, in the PRC
AInnovation Technology HK Limited (創新奇智科技香港有限公司)	Limited liability company	HK 28 June 2022	Nil paid	100.00	Software sales and development, artificial intelligence software development, in HK
AInnovation Eye (Guangzhou) Technology Co., Ltd. (慧眼奇智(廣州)精密技術有限公司)	Limited liability company	The PRC 29 December 2022	Nil paid	80.00	Technology and software development, artificial intelligence research and product development, in the PRC
Shanghai Compass Information Technology Co., Ltd. (上海羅盤信息科技有限公司)	Limited liability company	The PRC 2 September 2002	RMB 10,000	51.00	Technology and software development, artificial intelligence research and product development, in the PRC

(i) The paid-in capital of China Railway Qizhi (Hefei) Technology Co., Ltd. was decreased by RMB10,000,000 to RMB5,100,000 in 2023 due to withdrawn by non-controlling interests with the amount of RMB4,900,000. On 31 January 2024, China Railway Qizhi (Hefei) Technology Co., Ltd. was deregistered.

(ii) For the year ended 31 December 2023, the Company completed the acquisition of 20% non-controlling interests in AInnovation (Guangzhou) Technology Co., Ltd. at a total consideration of approximately RMB5,264,000.

(iii) For the year ended 31 December 2023, six subsidiaries were established, of which AInnovation (Bengbu) Technology Co., Ltd. was established under the laws of the PRC with limited liability on 16 Janurary 2023, RewinCloud Pte. Ltd. was established under the laws of Singapore with limited liability on 10 April 2023, AInnovation Technology Pte. Ltd. was established under the laws of Singapore with limited liability on 10 April 2023, Chengdu AInnovation Caeri Technology Co., Ltd. was established under the laws of the PRC with limited liability on 24 May 2023, Chengdu AInnovation Huacheng Technology Co., Ltd. was established under the laws of the PRC with limited liability on 18 September 2023, AInnovation EHigher (Qingdao) Intelligence Technology Co., Ltd. was established under the laws of the PRC with limited liability on 22 December 2023, with no capital being paid as at 31 December 2023.

44 Subsidiaries (continued)

(iv) Shanghai Jiaqian Construction Engineering Co., Ltd. and Jiangsu Haimaike Intelligent Technology Development Co., Ltd. were accounted for as subsidiaries of the Group as they were controlled by Shanghai EHigher, a 51% owned subsidiary of the Group.

Except for the changes above, there were no changes to the equity interests held by the Company in these subsidiaries since 31 December 2023 as of the date of this report.

* The English name of the Company referred above represents the best effort made by management of the Company to directly translate the Chinese names as they have not registered any official English names.

Non-controlling interests (NCI)

Set out below is summarized financial information for AInnovation EHigher (Shanghai) Intelligence Technology Co., Ltd. and its subsidiaries that has non-controlling interests that are material to the Group. The amounts disclosed for Shanghai EHigher are before inter-company eliminations.

Summarized balance sheet	**Shanghai EHigher As at 31 December**	
	2023	**2022**
	RMB'000	**RMB'000**
Current assets	**337,423**	204,427
Current liabilities	**(311,910)**	(212,611)
Current net assets	**25,513**	(8,184)
Non-current assets	**94,024**	109,695
Non-current liabilities	**(4,679)**	(10,309)
Non-current net assets	**89,345**	99,386
Net assets	**114,858**	91,202
Accumulated NCI	**59,555**	47,866

44 Subsidiaries (continued)

Non-controlling interests (NCI) (continued)

Summarized statement of comprehensive income	**Shanghai EHigher**	
	For the year ended 31 December 2023 RMB'000	**Seven months ended 31 December 2022 RMB'000**
Revenue	**389,182**	219,468
Profit for the year	**23,693**	2,006
Other comprehensive (loss)/income	**(36)**	192
Total comprehensive income	**23,657**	2,198
Profit allocated to NCI	**11,689**	1,094
Dividends paid to NCI	**—**	—

Summarized cash flows	**Shanghai EHigher**	
	For the year ended 31 December 2023 RMB'000	**Seven months ended 31 December 2022 RMB'000**
Cash flows from operating activities	**(10,911)**	13,324
Cash flows from investing activities	**(402)**	(3,166)
Cash flows from financing activities	**4,832**	2,970
(Decrease)/increase in cash and cash equivalents	**(6,481)**	13,128

45 Subsequent events

The Group had no significant events after the reporting period and up to the date of the approval of the audited consolidated financial statements.

46 Summary of other potentially material accounting policies

46.1 Subsidiaries

Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated and unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

46.2 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in reserves is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of profit or loss, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

46 Summary of other potentially material accounting policies (continued)

46.2 Associates (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of an associate' in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognized in the comprehensive income.

46.3 Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

46 Summary of other potentially material accounting policies (continued)

46.3 Business combination (continued)

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

46.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in the subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

46 Summary of other potentially material accounting policies (continued)

46.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company.

During the reporting periods, the Group has been focusing on research and development of artificial intelligence solutions. Accordingly, the management considers that the Group is operated and managed as a single operating segment and hence no segment information is presented.

46.6 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Since most of the assets and operations of the Group are located in the PRC, the consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognized in the consolidated statement of comprehensive income on a net basis within "Other losses, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognized in other comprehensive income.

46 Summary of other potentially material accounting policies (continued)

46.6 Foreign currencies (continued)

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

46.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the year in which they are incurred.

46 Summary of other potentially material accounting policies (continued)

46.7 Property, plant and equipment (continued)

Construction in progress represents leasehold improvements under construction or pending installation and is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to relevant category within property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 46.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other losses, net" in the consolidated statement of comprehensive income.

46.8 Goodwill

Goodwill arising from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use ("VIU") and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

46 Summary of other potentially material accounting policies (continued)

46.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other Assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

46.10 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

46 Summary of other potentially material accounting policies (continued)

46.10 Financial assets (continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other losses together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

46 Summary of other potentially material accounting policies (continued)

46.10 Financial assets (continued)

(iii) Measurement (continued)

Debt instruments (continued)

- Financial assets at FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income ("OCI"). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the consolidated statement of comprehensive income and recognized in "Other losses, net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other losses and impairment expenses are presented as separate line item in the statement of profit or loss.

- Financial assets at FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in "Other losses, net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets measured at FVTPL are recognized in "Other losses, net" in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

46 Summary of other potentially material accounting policies (continued)

46.10 Financial assets (continued)

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment of other receivables is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

46.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventories are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

46.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 22 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

46 Summary of other potentially material accounting policies (continued)

46.13 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, demand deposits held at banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

46.14 Trade and other payables

Trade and notes payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

46.15 Paid-in capital, share capital, capital reserve and share premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Group as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

Where the Company issued shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums over share capital shall be classified as share premium.

46 Summary of other potentially material accounting policies (continued)

46.16 Treasury shares

Own equity instruments which are reacquired and held by the Company are recognized directly in equity at cost. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

46.17 Current and deferred income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet dates in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

46 Summary of other potentially material accounting policies (continued)

46.17 Current and deferred income tax (continued)

Deferred income tax (continued)

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

46.18 Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Pension obligations

Full-time employees in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no further payment obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined contribution pension plans even if the employee leaves.

46 Summary of other potentially material accounting policies (continued)

46.18 Employee benefits (continued)

Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

46.19 Share-based payments

(a) The Group operates an equity-settled share-based compensation plan, under which the Group receives service from its employees in exchange for the equity instruments of the Group. As disclosed in Note 30, during the reporting periods, equity-settled share options and restricted stock unit ("RSUs") were granted to certain directors, senior management, employees and consultants. The fair value of the employee service received in exchange for the grant of share options and RSUs is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions (e.g. the entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the vesting period, in which all of the specified vesting conditions are to be satisfied.

At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

46 Summary of other potentially material accounting policies (continued)

46.19 Share-based payments (continued)

(a) (continued)

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is excess of the fair value of the modified equity instrument over that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based compensation plan, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

(b) Share-based payment transaction among group entities

The grant by the Company of its equity instruments to the employees of its subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity.

46.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

46 Summary of other potentially material accounting policies (continued)

46.21 Interest income

Interest income from financial assets at FVTPL is included in other losses, net (Note 10). Any other interest income is included in finance income.

Interest income from cash at bank is recognized on a time-proportion basis using the effective interest method.

46.22 Earnings per share

(i) Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

46.23 Leases

The Group mainly leases office and plant as lessee. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

46 Summary of other potentially material accounting policies (continued)

46.23 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

To determine the incremental borrowing rate, the Group:

- uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

46 Summary of other potentially material accounting policies (continued)

46.23 Leases (continued)

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of IT equipments.

46.23 Leases (continued)

Lease income from operating leases where the Group is a lessor is recognized in revenue on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

46.24 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as "financial income" or "finance costs".

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

46 Summary of other potentially material accounting policies (continued)

46.25 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

46.26 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Note 9 provides further information on how the group accounts for government grants.

46.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's directors or shareholders, where applicable.

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