



**SenseTime Group Inc.**  
**商汤集团股份有限公司**

*(a company controlled through weighted voting rights and incorporated  
in the Cayman Islands with limited liability)*

HKEX: 0020 (HKD Counter) 80020 (RMB Counter)

**ANNUAL REPORT**

**2023**

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Dr. XU Li (徐立) (*Executive Chairman of the Board*)

Dr. WANG Xiaogang (王曉剛)

Mr. XU Bing (徐冰)

### Non-executive Director

Ms. FAN Yuanyuan (范瑗瑗)

### Independent non-executive Directors

Prof. XUE Lan (薛瀾)

Mr. LYN Frank Yee Chon (林怡仲)

Mr. LI Wei (厲偉)

## AUDIT COMMITTEE

Mr. LYN Frank Yee Chon (林怡仲) (*Chairperson*)

Ms. FAN Yuanyuan (范瑗瑗)

Mr. LI Wei (厲偉)

## REMUNERATION COMMITTEE

Mr. LI Wei (厲偉) (*Chairperson*)

Dr. XU Li (徐立)

Mr. LYN Frank Yee Chon (林怡仲)

## NOMINATION COMMITTEE

Mr. LI Wei (厲偉) (*Chairperson*)

Dr. XU Li (徐立)

Prof. XUE Lan (薛瀾)

## CORPORATE GOVERNANCE COMMITTEE

Prof. XUE Lan (薛瀾) (*Chairperson*)

Mr. LYN Frank Yee Chon (林怡仲)

Mr. LI Wei (厲偉)

## JOINT COMPANY SECRETARIES

Ms. LIN Jiemin (林潔敏)

Ms. WONG Wai Yee Ella (黃慧兒)

## AUTHORIZED REPRESENTATIVES

Mr. XU Bing (徐冰)

Ms. LIN Jiemin (林潔敏)

## AUDITOR

PricewaterhouseCoopers

*Certified Public Accountants*

*Registered Public Interest Entity Auditor*

22/F, Prince's Building

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Cayman Islands

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Hong Kong

## HONG KONG LEGAL ADVISOR

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Central

Hong Kong

## COMPLIANCE ADVISOR

Haitong International Capital Limited

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Central

Hong Kong

**HONG KONG SHARE REGISTRAR**

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Shops 1712-1716  
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Wan Chai  
Hong Kong

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**COMPANY'S WEBSITE**

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**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

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Xicheng District  
Beijing  
PRC

Industrial and Commercial Bank of China Limited  
Shanghai Municipal Branch  
No. 9 Pudong Avenue  
Pudong New District  
Shanghai  
PRC

China Construction Bank  
No. 25, Finance Street  
Xicheng District  
Beijing  
PRC

China Merchants Bank  
Merchants Bank Tower  
No. 7088 Shennan Boulevard  
Futian District  
Shenzhen  
PRC

## Five-Year Financial Summary

	For the year ended December 31,				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
<b>Continuing operations</b>					
Revenue	3,026,603	3,446,165	4,700,263	3,808,510	<b>3,405,842</b>
Gross profit	1,719,164	2,432,084	3,277,638	2,542,267	<b>1,500,787</b>
Loss before income tax	(5,172,861)	(12,319,017)	(17,141,544)	(6,332,812)	<b>(6,504,162)</b>
Income tax credits/(expenses)	205,169	160,670	(35,506)	239,822	<b>9,492</b>
Loss for the year from continuing operations	(4,967,692)	(12,158,347)	(17,177,050)	(6,092,990)	<b>(6,494,670)</b>
Losses attributable to:					
Equity holders of the Company	(4,962,548)	(12,158,193)	(17,140,086)	(6,044,796)	<b>(6,440,159)</b>
Non-controlling interests	(5,144)	(154)	(36,964)	(48,194)	<b>(54,511)</b>
	As at December 31,				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Total assets	23,948,047	38,478,637	36,944,319	37,426,993	<b>32,888,024</b>
Total liabilities	34,602,346	59,411,177	4,957,235	8,413,133	<b>9,732,551</b>
Total (deficits)/equity	(10,654,299)	(20,932,540)	31,987,084	29,013,860	<b>23,155,473</b>
Non-controlling interests	135,847	135,693	94,573	43,636	<b>(3,947)</b>
(Deficits)/Equity attributable to equity holders of the Company	(10,790,146)	(21,068,233)	31,892,511	28,970,224	<b>23,159,420</b>

### FINANCIAL HIGHLIGHTS

Our revenue decreased to RMB3,405.8 million in 2023 from RMB3,808.5 million in 2022. Our gross profit decreased to RMB1,500.8 million in 2023 from RMB2,542.3 million in 2022. Our loss for the year increased to RMB6,494.7 million in 2023 from RMB6,093.0 million in 2022. Our negative adjusted EBITDA increased to RMB4,369.0 million in 2023 from RMB4,213.4 million in 2022, whereas our adjusted net loss increased to RMB5,414.1 million in 2023 from RMB4,736.2 million in 2022.

# Chairman's Statement

## BUSINESS REVIEW AND OUTLOOK

### Overall Performance

In 2023, SenseTime continued to invest in and maintain its industry-leading position of “SenseNova” Large Model Series. The total computing power of our AI infrastructure – SenseCore has achieved breakthrough growth, reaching 12,000 petaFLOPS with 45,000 GPUs under operation. Our new “Model-as-a-Service” (MaaS) business model allows customers to easily fine-tune and call various generative AI capabilities on our infrastructure without having to build and manage the underlying infrastructure. This leadership position in AI infrastructure and large model services has driven generative AI revenue to exceed RMB1,183.7 million, representing a significant 199.9% YoY growth. This segment now accounts for 34.8% of the Group’s revenue, up from 10.4% in 2022. SenseAuto, our smart car business, also demonstrated robust growth, achieving revenue of RMB383.7 million, a 31.1% increase YoY. Its contribution to the Group’s total revenue increased from 7.7% in 2022 to 11.3% in 2023. Meanwhile, the Traditional AI business, such as Smart City, experienced a 41.1% YoY decline to RMB1,838.4 million in 2023 in light of the Group’s strategic pivot towards other segments, with their share of the Group’s total revenue decreasing from 81.9% in 2022 to 53.9% in 2023. Notably, the proportion of Smart City revenue has dropped to below 10%, significantly reducing our reliance on this sector. In 2023, total revenue of the Group was RMB3,405.8 million, representing a 10.6% decrease YoY. Gross profit stood at RMB1,500.8 million, with a gross profit margin of 44.1%. Collection of trade receivables amounted to RMB3,885 million, up 48.5% YoY. SenseTime’s efforts to improve operational efficiency have yielded positive results. Total operating expenses for R&D, administration and sales fell by 10.6% YoY to RMB5,795.4 million. In addition, capital expenditures (excluding one-time investment in office building) decreased by 20%. The Group’s EBITDA (loss) was RMB5,449.6 million, a 2.2% reduction YoY. Net loss amounted to RMB6,494.7 million.

In 2023, SenseTime successfully transitioned its generative AI large models from the R&D stage to commercial applications, achieving revenue exceeding RMB1 billion in this field. Generative AI represents not only a transformative technological innovation for SenseTime, but it is also becoming a core business segment, signifying our upgrade from perception and decision intelligence in the AI 1.0 era to generative intelligence in the AI 2.0 era. The growth of our generative AI business is attributable to the following key advantages:

- First of all, Sensetime’s decade-long effort in perceptual and decision intelligence, as well as rich reserve for multi-modal data processing, has strengthened our basic understanding of the physical world and multi-modal capabilities.
- Secondly, our large synergy from computing infrastructure to large models. On the one hand, our large model can continue to improve its performance with the infrastructure of more than 10,000 GPUs under the Scaling Law; on the other hand, with our deep understanding in building large models, we are able to design infrastructure with foresight and efficiency and achieve industry-leading scheduling flexibility of SenseCore.
- Thirdly, our experience in edge deployment. Since 2015, we have cooperated with almost all the leading Android phone manufacturers and major car companies in the world, and implanted our perception and decision intelligence into more than 2 billion mobile phones and millions of cars to optimize edge inferencing. In the era of generative AI, we are also the fastest to launch edge-based small models with industry-leading performance and inference speed, making way for new applications.
- Finally, our AI to Business capabilities. We have extensive experience in many 2B scenarios, and possess deep expertise and capabilities for serving enterprise customers. We are able to respond quickly to our customers’ needs and provide the most cost-effective generative AI solutions.

## Chairman's Statement

Following the business restructuring in 2023, we have reclassified business revenue streams as Generative AI, Traditional AI and Smart Auto, which corresponds to model training, fine-tuning and inferencing services business under Generative AI; non-generative AI business under the traditional Smart City, Smart Business and Smart Life sector; and the original Smart Auto business. Under this new structure, the Group prioritizes the development of Generative AI, while maintaining its leadership in Traditional AI and Smart Auto businesses, so as to optimize operational efficiency.

### PERFORMANCE OF EACH BUSINESS SEGMENT

#### Generative AI

In 2023, our Generative AI business achieved significant growth. Our "SenseNova" Large Model was one of the eight large models in China initially registered under the Interim Measures for the Management of Generative Artificial Intelligence Services (《生成式人工智能服務管理暫行辦法》), allowing us to serve a broad range of public and enterprise customers. Our Generative AI business is the fastest new business to reach the RMB1 billion revenue mark from scratch since our establishment 10 years ago. SenseTime offers industry-leading AI infrastructure and a full array of model options to our customers, whose demand for model training, fine-tuning, and inference is exploding. More than 70% of these customers are new to SenseTime within the past 12 months, and for the remaining 30% of its existing customers, average revenue per customer increased by about 50%. Our customers come from a variety of sectors, including the three major telecom operators, financial institutions such as China Merchants Bank, Haitong Securities, internet companies such as Jingdong, Xiaomi, China Literature and academic institutions such as Tsinghua University, Shanghai Jiao Tong University.

Our training services empower the full lifecycle production of large models with up to trillions of parameters, with added support for multi-modal and Mix of Experts models. Our AIDC in Shanghai Lingang, which opened as early as 2022, is already a "role model" for the construction of domestic AIDCs. The computing power network managed by us has realized unified scheduling across the nation, and new computing nodes have been added in Shanghai, Shenzhen, Guangzhou, Fuzhou, Jinan and Chongqing, with the total operating computing power reaching 12,000P and the number of GPUs reaching 45,000. In 2024, we expect to expand the national network computing power nodes to a wider area, unleashing the power of "new quality productive forces".

For large model training services, the scale of GPU network, acceleration efficiency and stability of GPUs of the infrastructure are among the three most critical performance indicators. We have achieved super-large cluster interconnection of up to 10,000 GPUs, reaping 90% acceleration efficiency. In terms of training stability, our infrastructure can support continuous training for more than 30 days without disruption, and the diagnostic recovery time in case of a disruption has been shortened to half an hour.

Regarding the large model inference service, we have also achieved industry-leading inference optimization, with cost-effectiveness of the inference service increased by 3 times in a single year, providing customers with the most cost-effective large-scale flexible inference service in the industry.

Over the past year, we offered a more diversified selection of chips for training and inference to customers with SenseCore. We expanded our offerings to include mainstream domestic chips such as Huawei Ascend and Cambricon to support training, fine-tuning and inference of large models with domestic technology and hardware.

The key to this is the DeepLink open computing platform co-developed by SenseTime. DeepLink is a leading domestic parallel computing platform aiming to bridge the gap between domestic chips and deep learning software frameworks. DeepLink provides more than 300 standard operator interfaces; virtually supports all AI large model computing needs that CUDA supports, with coverage rate of 99.5%. With DeepLink, domestic chips can be easily adapted to mainstream large-scale model training frameworks and algorithm libraries, such as PyTorch, DeepSpeed and other common open source training frameworks, as well as open source algorithm libraries such as OpenMMLab, OpenDILab and OpenGVLab launched by SenseTime, enhancing the performance of domestic chips.

We have also built industry-leading small models for edge devices, including language models and text-to-image models, which offer comparable performance to large models but are compact enough to run on laptops or mobile devices.

We have witnessed the growth in usage by leading industry players such as Xiaomi, China Literature and Weibo, as well as the emergence of AI startups such as HiDream.AI, Lanzhou Technology, and Tiamat, leveraging the capabilities of SenseCore. For example, SenseNova's code generation and function calling capabilities have also achieved remarkable success in empowering digital office applications, particularly demonstrating significant technical advantages as demonstrated in the Copilot application for Kingsoft Office WPS. The model ranked first in the SuperClue code evaluation and surpassed GPT-4.

From a commercial perspective, we are seeing more client collaborations that are larger in scale and strategically more significant. Currently, we have dozens of customers with orders exceeding RMB10 million. Consumer-end usage of SenseNova has shown a nearly 120-fold increase.

In the 2023 "China AI Development Platform Market Report" published by Frost & Sullivan, SenseTime ranked first in the country in the comprehensive score of growth index and innovation index. The results not only demonstrated SenseTime's leading position in generative AI, but also served as international recognition of our innovation capabilities and market expansion speed.

#### *SenseNova's large model capabilities upgrade*

SenseTime's "SenseNova" Large Model Series showcases the integration of leading technological innovation and commercial applications. Guided by the Scaling Law, large models are undergoing a golden age of technological innovation and performance advancement. At this critical stage, our two main objectives are to keep pace with global leading technology players, and to promote the rapid implementation of commercial applications to achieve value creation. The current capabilities of generative AI models are far from the upper limit. The capabilities of SenseNova significantly improve every three months, leading to corresponding upgrades in their enterprises applications.

## Chairman's Statement

Throughout 2023, "SenseNova" Large Model Series has undergone important technological upgrades, each of which has placed us at the forefront of the industry, demonstrating our profound technical foundation:

- In April 2023, we launched SenseNova 1.0, marking the release of one of the first large language models and also featuring a variety of generative AI models such as Mirage text-to-image and 3D content generation.
- In July and August 2023, we quickly iterated SenseNova 2.0 and 3.0 to achieve significant improvements in language capabilities through improved training data quality. SenseNova has become the first domestic large model that surpassed GPT-3.5-turbo, and also one of the first large models to register under the Interim Measures that allows official launch to end users.
- In February 2024, we launched SenseNova 4.0 that achieved performance on par with GPT-4 in coding, data analysis, and medical question answering. At the same time, we also open-sourced the base model of InternLM2-7B and 20B, surpassing the performance of Meta's Llama2 and Google's Gemma at the same parameter level. After 4 iterations, SenseNova-Mirage was also upgraded to tens of billions of parameters, achieving a tenfold increase in inference speed, becoming the most useful text-to-image product in China. On this basis, we further developed a large text-to-video model that achieved cinematic image quality.
- We are working on SenseNova 5.0, which is expected to be released in April and will fully match GPT-4-turbo. SenseNova 5.0 will achieve a million-word context length while also strengthening its multi-modal capabilities that will fully match GPT4V.

All in all, the continuous iteration and optimization of SenseNova large model not only reflected the Company's technological pursuit and innovation in artificial intelligence, but also demonstrated its determination and ability to transform cutting-edge technology into practical application of value.

### *Commercial application of SenseNova Large Model Series*

SenseNova Large Model Series has established its outstanding application value and leading position in multiple industries, especially in the following key areas:

1. Finance: We have significantly improved the model's data processing and question-answering capabilities by refining the model's retrieval-augmented generation (RAG) technology. Using RAG technology, financial data is efficiently mapped into a vector database, which strengthens the model's financial knowledge base and effectively reduces the incidence of erroneous information generation (commonly known as the "hallucination" phenomenon). This breakthrough enables the model to accurately respond to professional financial inquiries. As a result, many established banks, including Bank of China, China Merchants Bank, Industrial and Commercial Bank of China, and Bank of Shanghai, have adopted the SenseNova large model to build their "digital employees" and "digital customer services" systems to provide a more intelligent customer service experience.

2. **Healthcare:** We have leveraged massive medical knowledge and imaging data to cultivate a "SenseChat-DaYi" model with strong multi-modal capabilities. This model provides professional medical knowledge question and answer services and has the ability to recognize a variety of medical images such as CT, MR and pathology. In the MedBench professional pharmacist examination evaluation, "SenseChat-DaYi" won the second place for its excellent comprehensive ability, which was comparable to the overall performance of GPT-4 and surpassed it in specific subdivisions. Currently, "SenseChat-DaYi" has been applied in institutions such as Xinhua Hospital of Shanghai Jiao Tong University School of Medicine, Ruijin Hospital and the First Affiliated Hospital of Zhengzhou University, significantly improving the quality and efficiency of medical services.
3. **Enterprise Copilot Assistants:** Our technical prowess in Excel processing and other data analysis leads the industry, and has been adopted by leading companies like Kingsoft Office, Haitong Securities and China Merchants Group. In the SuperClue code evaluation, the performance of SenseNova large model ranked first, outperforming GPT-4 on data analysis test of up to thousands of questions. The Company has launched Coding Copilot and Office Copilot for free trial. Coding Copilot significantly improving developers' programming efficiency, while Office Copilot is able to automatically process Excel and other documents, perform various data analysis tasks, and generate intuitive visual charts, which greatly improves the efficiency of office workers.
4. **Anthropomorphic Interaction:** SenseNova large model focuses on improving the model's character shaping and long-term dialogue memory capabilities. As a result of these enhancements, the model is able to create dialogue content that matches the image, style, personality and cognitive framework of a specific character. Anthropomorphic chat applications supported by SenseNova large model stands out in the domestic market and has become the industry leader with its strong user royalty, with customer-built 2C chat applications achieving next-day retention rates comparable to character.AI (exceeding 60%) and a maximum of over 2,000 rounds of conversation from a single user.
5. **Smart Device:** We believe that 2024 will be the year of explosive growth for edge-based large model applications. Building on years of experience in Smart Devices, SenseTime has constructed industry-leading small models of various specifications. For example, our 7B model outperforms Meta's Llama2 and Google's Gemma. In 2023, Tetras.AI, one of our subsidiaries, demonstrated generative AI edge models on both Qualcomm and MediaTek product launch events. Our 7B-level small model has achieved an industry-leading inference speed of 16 tokens/second on Qualcomm's latest chip. These edge-based models are crucial for AI phones, which are able to understand user commands and call on various applications on the phone to complete complex tasks. SenseTime has partnered with mobile phone companies such as Xiaomi and Honor to jointly develop these innovative features.

## Chairman's Statement

### Traditional AI

After the business reorganization in 2023, we grouped our traditional non-generative AI businesses of Smart City, Smart Business and Smart Life into Traditional AI. Given the rapid growth of the Generative AI business, combined with the strategic pivot from our Smart City business, the share of traditional AI business in the Group's total revenue decreased from 81.9% in 2022 to 53.9% in 2023. The drop in the share of revenue from Smart City business from about 30% to less than 10% have significantly reduced the Group's reliance on Smart City business. During the past year, the main objective of our Traditional AI business was to improve quality of cash flow. We have navigated the entire process of AI, from breaking through industrial application benchmark to cost reduction and penetration, in Smart City and Smart Business. This has allowed us to accumulate large customer base and efficiency improvement experience, laying a solid foundation for the rapid application and promotion of generative AI technology in these scenarios.

For our smart devices business, amid the overall decline of the global mobile phone market, our products have shown remarkable resilience. We continued to secure mass production orders for our AI sensors, AI SDK software and AI ISP chips, and such products have been installed on hundreds of millions of smartphones. To date, we have already empowered more than 2 billion smartphones with our technologies, providing huge potential for our on-device generative AI business.

### Smart Auto

The strategic positioning of SenseAuto is to become a core supplier of automotive intelligence in the era of artificial general intelligence, relying on SenseTime's strong infrastructure and R&D capabilities in the field of large models. In 2023, our Smart Auto business "SenseAuto" realized revenue of RMB383.7 million, representing an increase of 31.1% over the previous year. SenseAuto Pilot and SenseAuto Cabin, two core areas of our business, have both achieved continuous growth. In respect of our mass production volume, our SenseAuto solutions were delivered to 1.29 million vehicles during the year, representing a significant yoy increase of 163%. In respect of economic benefits, the gross profit per vehicle of SenseAuto Cabin increased by 30%. So far, SenseAuto solutions have been delivered to a total of 1.95 million smart vehicles in aggregate, covering more than 90 car models, which has strengthened SenseAuto's leading position in the industry in terms of mass production progress. Additionally, we received confirmation letters as the designated supplier for over 16 million additional vehicles and expanded to 41 new car models.

Our deliveries in the Smart Pilot have achieved a remarkable breakthrough. In 2023, we successfully achieved mass production of the high-speed NOA (Navigate on Autopilot) function for GAC Aion LX Plus, Hozon Neta S, GAC Hyper GT amongst others, and will deliver our solutions to more models. Our NOA functions have been widely recognized and praised by users. We will also achieve mass production of urban NOA functions in 2024, and strive to maintain our leading position in mass production progress of autonomous driving solutions in China market. With large models, our autonomous driving technology has made significant achievements, among which UniAD (Unified Autonomous Driving), released in 2022, marks the industry's first publicly released end-to-end automated driving large model solution, has won the Best Paper Award at the 2023 Conference on Computer Vision and Pattern Recognition (CVPR), and has been deployed in real automotives. UniAD demonstrated state-of-the-art performance in all task evaluations on the nuScenes dataset, significantly outperforming other models in prediction and planning. In the second half of the year, we released DriveMLM, an innovation that uses multimodal large language models (LLM) to optimize the planning and control module of autonomous driving, which significantly improved the controllability and interpretability of the model, and achieved leading driving scores in CARLA simulator environment.

We have also made significant progress in Smart Cabin. In 2023, we launched a matrix comprising four major smart cabin products: driver monitoring system (DMS), operations management system (OMS), near-field sensing system and cabin brain, aiming to enhance drivers' riding experience in all aspects. By combining cutting-edge generative AI technologies such as large language models, text-to-image models, multimodal models and generalist agents, we have launched 11 industry-leading new smart cabin features. These innovative functions, such as role-play interaction, touch-free painting, creative audio and video, and smart selection of news, have been widely used in mass-produced models of many mainstream automobile manufacturers. Our large-model product suites of SenseAuto Cabin won the Lingxuan Award 2023.

## ENVIRONMENT, SOCIETY AND GOVERNANCE

### Environmental Protection

SenseTime has established a series of environmental sustainability goals in 2021, including achieving carbon peak by 2025, striving for operational carbon neutrality by 2030, and achieving net-zero emissions by 2050. The Company is committed to achieving these goals through our ongoing AI computing center energy-saving transformation project and actively adopts low-carbon development practices.

During the reporting period, SenseTime's AIDC in Shanghai Lingang continued to optimize energy efficiency by improving the cooling control strategy of the data center, and successfully achieved an annual average power usage efficiency (PUE) of less than 1.3. This was an outstanding achievement in the industry and exceeds the industry average.

SenseTime not only promotes energy conservation and emission reduction within the Group, but also plays a leading role in the industry. Leveraging on its rich experience in the management and operation of AI computing centers, the Company jointly released the "New Generation Artificial Intelligence Infrastructure White Paper" with the China Academy of Information and Communications Technology (中國信息通信研究院), the China Intelligent Computing Industry Alliance (中國智能算力產業聯盟) and other important partners. This white paper provides valuable guidance and reference for the development of AI computing infrastructure in the AI 2.0 era, marking the Company's important contribution in promoting the industry's transformation to a greener and smarter industry.

## Chairman's Statement

### Product Ethics and Safety

In order to provide responsible products and services to our customers and the market, we are committed to providing AI technology that meets ethical standards. In terms of preventing potential ethical issues and risks of generative AI, we have built a safe and reliable large model governance system that covers three key levels: data processing, model construction, and content generation, forming a comprehensive “safety net”. In addition, we actively share our advanced experience with the industry and launched an AI governance infrastructure called SenseTrust during the reporting period to promote the reliability and trustworthiness of large model development, training and its applications:

- At the data level, SenseTrust provides a series of governance tools, including data desensitization, data detoxification, data compliance review and bias assessment.
- At the model level, SenseTrust provides standardized evaluation capabilities for models through its proprietary model examination series platform.
- At the application level, relying on our expertise in the fields of data protection, digital forensics and forgery detection, we have gradually developed a comprehensive solution that integrates generation, counterfeiting and source tracing functions.

At the same time, SenseTime and the China Academy of Information and Communications Technology jointly released the “Research Report on Large Model Trustworthiness”, which systematically analyses and explains the development risks and governance suggestions of large AI models. The said report provides an important direction for the development of trustworthy large AI models. It also provides a framework for the construction of large model risk management system.

SenseTime has obtained multiple certifications, including ISO 27001 Information Security Management System Certificate, ISO 29151 Personal Identity Data Protection Management System Certificate, ISO 27701 Privacy Information Management System Certificate and BS 10012 Personal Information Management System Certification. These certifications mark our commitment and capabilities in the field of information security. During the reporting period, SenseTime's SenseAuto products obtained China's first ISO/SAE 21434 Automotive Network Security Product Certificate and TISAX AL3 Trusted Information Security Assessment Certificate, which further strengthened our capabilities in information security protection.

### Compliance Management and Business Ethics

At SenseTime, we attach great importance to our core values of compliant operations and business ethics. We have established and maintained a scientific, reasonable and efficient management system and regime to ensure strict execution in the Company. We adhere to the principle of “zero tolerance” for any form of fraud, bribery and conflicts of interest, and work together with our partners to build an honest and fair business environment. In order to further strengthen the compliance culture, we regularly conduct compliance inspections and business ethics awareness training for internal employees. In addition, we established fair reporting channels for all stakeholders, encouraging transparency and public participation, to ensure our business actions are appropriately monitored and open to constructive feedback. Through these measures, we not only promote a corporate culture based on integrity, but also build a solid foundation for the long-term sustainable development of SenseTime. We truly believe that operating with integrity is not only a legal and moral requirement, but also the key to success of a corporation.

## STRATEGIC OUTLOOK

Our strategic goals for 2024 specifically include:

- Maintaining leading edge in technology:** We will further leverage the huge synergetic advantages brought by “AI Infrastructure + Large Models”, continue to expand the scale of computing power, strengthen the service capabilities of AI infrastructure and large models. We will continue to iterate the capability of SenseNova large models to maintain its leading position in the industry. At the same time, we commit to enhancing the inferencing efficiency of large models based on “Moore’s Law”. With the cloud-device connection and other innovative optimization strategies, we can quickly reduce the model inferencing costs, thereby broadening the scope of future applications;
- Driving business growth.** We will accelerate the commercialization and market penetration of generative AI, and provide customers with generative AI solutions with the best value. At the same time, we will maintain the steady growth of traditional AI businesses to improve the quality of cash flow.
- Profitability for our core business.** We will continue to optimize the Group’s operating efficiency by incubating and spinning off non-core businesses and adopting other strategies, and focus our resources on generative AI business to improve cash flow and reduce losses.

On our journey towards artificial general intelligence (AGI), the Scaling Law plays a crucial role. The breakthroughs brought by AI Infrastructure and Large Models we have witnessed over the past year only mark the beginning of this journey. The capabilities of generative AI models at present have not yet fully unleashed their potential, and we expect that the capabilities of these models will continue to increase and will be used in higher level applications by enterprise. Looking ahead to 2024, we expect to see:

- with the expansion of computing power and data scale, the performance of SenseNova large models will be further improved, and can promote the development of chips with high-computing density and high energy-efficiency;
- effective utilization of multimodal data to create a cross-modal world model;
- further improvement in the reliability and complex inferencing of large models, which will gradually penetrate into the production field and bring revolutionary changes in productivity;
- on-device large models entering an explosive period, reshaping the form of user interaction on AI smartphones and other smart devices.

With the huge collaboration advantages brought by AI Infrastructure and Large Models, cloud-device collaboration capabilities, and rich commercialization experience across scenarios enjoyed by SenseTime, we are confident in our long-term growth. In spite of certain challenges during the transition period, we are determined to adopt a steady and visionary strategy to ensure that we can secure a leading position amid the competition in the AI 2.0 era, and achieve long-term leapfrog development.

# Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

The following table sets forth the comparative figures for the Year ended December 31, 2023 and 2022:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Revenue	3,405,842	3,808,510
Cost of sales	(1,905,055)	(1,266,243)
<b>Gross profit</b>	<b>1,500,787</b>	2,542,267
Selling expenses	(818,731)	(900,787)
Administrative expenses	(1,510,855)	(1,567,739)
Research and development expenses	(3,465,766)	(4,014,337)
Net impairment losses on financial assets and contract assets	(1,835,246)	(1,667,671)
Other income	291,500	447,255
Other losses – net	(808,244)	(1,367,311)
<b>Operating loss</b>	<b>(6,646,555)</b>	(6,528,323)
Finance income	341,977	260,546
Finance cost	(146,661)	(55,438)
<b>Finance income – net</b>	<b>195,316</b>	205,108
Share of losses of investments accounted for using the equity method	(20,813)	(2,357)
Fair value losses of preferred shares	(32,110)	(7,240)
<b>Loss before income tax</b>	<b>(6,504,162)</b>	(6,332,812)
Income tax credit	9,492	239,822
<b>Loss for the year</b>	<b>(6,494,670)</b>	(6,092,990)
<b>Loss is attributable to:</b>		
Equity holders of the Company	(6,440,159)	(6,044,796)
Non-controlling interests	(54,511)	(48,194)
	<b>(6,494,670)</b>	(6,092,990)
<b>Non-IFRS measures:</b>		
Adjusted EBITDA	(4,369,023)	(4,213,444)
Adjusted net losses	(5,414,139)	(4,736,199)

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

**Revenue**

Our revenue decreased by 10.6% to RMB3,405.8 million in 2023, compared to RMB3,808.5 million in 2022, primarily due to the decrease in Traditional AI revenues, partially offset by the increase in Generative AI and Smart Auto revenues. The following table sets out a breakdown of our revenue streams in absolute amounts and as percentages of our total revenue for the years indicated:

	Year ended December 31,			
	2023		2022	
	RMB million	%	RMB million	%
Generative AI	<b>1,183.7</b>	<b>34.8</b>	394.7	10.4
Traditional AI	<b>1,838.4</b>	<b>53.9</b>	3,121.1	81.9
Smart Auto	<b>383.7</b>	<b>11.3</b>	292.7	7.7
<b>Total</b>	<b>3,405.8</b>	<b>100.0</b>	3,808.5	100.0

Our Generative AI revenue increased by 199.9% to RMB1,183.7 million in 2023, compared to RMB394.7 million in 2022, as the demand for generative AI model training, fine-tuning, and reasoning has experienced exponential growth. We have also begun to commercialize our Generative AI related application products, supported by our AI infrastructure and “SenseNova” large model.

Our Traditional AI revenue decreased by 41.1% to RMB1,838.4 million in 2023, compared to RMB3,121.1 million in 2022. As we continue to shift our focus to Generative AI and actively shrink our Smart City business, the share of revenue from Smart City business has declined significantly from 30% to less than 10%, significantly reducing the Company’s reliance on Smart City business.

Our Smart Auto revenue increased by 31.1% to RMB383.7 million in 2023, compared to RMB292.7 million in 2022. We have experienced significant increase on ADAS related revenue. However, revenue from R&D services to a global auto OEM decreased, as this auto OEM shifts focus to potentially collaborate with us more on pre-installed products in the future.

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

### Cost of sales

Our cost of sales increased by 50.5% from RMB1,266.2 million in 2022 to RMB1,905.1 million in 2023. The following table sets out a breakdown of our cost of sales by nature in absolute amounts and as percentages of our cost of sales for the years indicated:

	Year ended December 31,			
	2023		2022	
	RMB million	%	RMB million	%
Hardware costs and subcontracting				
service fees	<b>1,537.9</b>	<b>80.8</b>	1,118.9	88.4
AIDC operation costs	<b>63.7</b>	<b>3.3</b>	13.8	1.1
Employee benefit expenses	<b>82.8</b>	<b>4.3</b>	72.1	5.7
Depreciation and amortization	<b>188.2</b>	<b>9.9</b>	39.4	3.1
Other expenses	<b>32.5</b>	<b>1.7</b>	22.0	1.7
<b>Total</b>	<b>1,905.1</b>	<b>100.0</b>	1,266.2	100.0

The increase in cost of sales was primarily attributable to the increase in hardware costs and subcontracting service fees due to customers' emerging demand, and AIDC-related depreciation and amortization due to the expansion of Generative AI services.

### Gross Profit and Gross Margin

Our gross profit decreased by 41.0% from RMB2,542.3 million in 2022 to RMB1,500.8 million in 2023, as a result of cost of sales increase and revenue decline. Our gross margin decreased from 66.8% in 2022 to 44.1% in 2023, mainly due to higher hardware and AIDC-related costs as percentage of revenue, as driven by customer demand in 2023.

### Research and Development Expenses

Our research and development expenses decreased by 13.7% from RMB4,014.3 million in 2022 to RMB3,465.8 million in 2023, primarily due to (i) a decrease in employee benefit expenses, and (ii) a decrease in server operation and cloud based service fees as we shift our GPU usage from third parties to our own AIDC.

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

**Selling Expenses**

Our selling expenses decreased by 9.1% from RMB900.8 million in 2022 to RMB818.7 million in 2023, primarily due to decrease in employee benefit expenses.

**Administrative Expenses**

Our administrative expenses decreased by 3.6% from RMB1,567.7 million in 2022 to RMB1,510.9 million in 2023, primarily due to a decrease in employee benefit expenses, partially offset by an increase of depreciation from new office space purchased in 2022.

**Net Impairment Losses on Financial Assets and Contract Assets**

Our net impairment losses on financial assets increased by 10.0% from RMB1,667.7 million in 2022 to RMB1,835.2 million in 2023 primarily due to increased impairment provision for trade receivables.

**Other Income**

Our other income decreased by 34.8% from RMB447.3 million in 2022 to RMB291.5 million in 2023 primarily due to a decrease in government grants.

**Other Losses – Net**

We had net other losses of RMB808.2 million in 2023 compared to net other losses of RMB1,367.3 million in 2022. The net other losses in 2023 primarily consist of fair value losses on financial assets at fair value through profit or loss amounting to RMB724.4 million and net foreign exchange loss of RMB67.8 million. The fair value losses on financial assets at fair value through profit or loss resulted from the decline of our investment portfolios' valuation, which largely reflected the overall challenging market conditions for technology-related assets during 2023.

**Finance Income – Net**

Net finance income remained relatively stable in 2023 compared to that in 2022, decreasing slightly from RMB205.1 million to RMB195.3 million.

**Fair Value Losses of Preferred Shares**

Fair value losses of preferred shares increased from RMB7.2 million in 2022 to RMB32.1 million in 2023 resulting from changes in the fair value of preferred shares issued by a subsidiary of the Company.

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

### Income tax credit

We had income tax credit of RMB9.5 million in 2023, compared to income tax credit of RMB239.8 million in 2022 primarily due to a decrease in tax losses, for which deferred income tax assets were recognised.

### Loss for the year

As a result of the foregoing, we had a loss of RMB6,494.7 million in 2023, compared with a loss of RMB6,093.0 million in 2022. Significant savings in operating expense in 2023 are not sufficient to offset the decline in gross profit.

### Non-IFRS Measures

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we also use EBITDA/adjusted EBITDA and adjusted net loss as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from year to year and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and certain impact of financing and investment activities. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the EBITDA/adjusted EBITDA and adjusted net loss may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

The following table sets out EBITDA/adjusted EBITDA and a reconciliation from loss before income tax for the years to EBITDA/adjusted EBITDA for the years indicated:

	Year ended December 31,	
	2023 RMB million	2022 RMB million
<b>Loss before income tax</b>	<b>(6,504.2)</b>	(6,332.8)
Add:		
Finance income, net	<b>(195.3)</b>	(205.1)
Depreciation and amortization	<b>1,249.9</b>	967.7
<b>EBITDA</b>	<b>(5,449.6)</b>	(5,570.2)
Add:		
Fair value losses of preferred shares and other financial liabilities	<b>32.1</b>	7.2
Share-based compensation expenses	<b>324.0</b>	464.5
Fair value losses on financial assets at fair value through profit or loss	<b>724.4</b>	885.1
<b>Adjusted EBITDA</b>	<b>(4,369.0)</b>	(4,213.4)

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 IFRS, which is net loss for the years:

	Year ended December 31,	
	2023 RMB million	2022 RMB million
<b>Net losses for the year</b>	<b>(6,494.7)</b>	(6,093.0)
Add:		
Fair value losses of preferred shares	<b>32.1</b>	7.2
Share-based compensation expenses	<b>324.0</b>	464.5
Fair value losses on financial assets at fair value through profit or loss	<b>724.4</b>	885.1
<b>Adjusted net losses</b>	<b>(5,414.1)</b>	(4,736.2)

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

**Trade, Other Receivables and Prepayments**

Our trade, other receivables and prepayments, which primarily comprise trade receivables, decreased from RMB6,071.7 million as of December 31, 2022 to RMB5,159.3 million as of December 31, 2023.

**Trade Receivables**

The following table sets out a breakdown of our trade receivables as of the dates indicated:

	Year ended December 31,	
	2023 RMB million	2022 RMB million
Trade receivables		
– Due from related parties	3.0	47.4
– Due from third parties	7,909.0	7,748.9
Provision for impairment	(4,191.4)	(2,578.5)
<b>Total</b>	<b>3,720.6</b>	<b>5,217.8</b>

Our net trade receivables decreased as of December 31, 2023, compared to that as of December 31, 2022.

Trade receivables' aging analysis based on date of revenue recognition is as follows:

	Year ended December 31,	
	2023 RMB million	2022 RMB million
Up to 6 months	1,039.7	1,995.6
6 months to 1 year	242.9	746.1
1 to 2 years	1,891.9	3,244.9
2 to 3 years	3,195.9	1,180.0
More than 3 years	1,541.6	629.7
	<b>7,912.0</b>	<b>7,796.3</b>

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

As of December 31, 2023, the aging of our gross trade receivables has worsened, compared to that as of December 31, 2022. A significant portion of our historical revenue was derived from smart city related business, which typically features a long payment cycle as required by their internal financial management and payment approval processes. Although our overall cash collection amount has improved year over year during 2023, cash collections for relatively long outstanding receivables remain challenging, as some of our customers, especially those from or are exposed to the public sector, face temporary budget constraints and uncertain macroeconomic environment.

## LIQUIDITY AND FINANCIAL RESOURCES

We have historically funded our cash requirements principally from capital contribution from shareholders. We had cash and cash equivalents of RMB9,423.5 million and term deposits of RMB1,099.9 million as of December 31, 2023, compared to the balance of RMB7,962.8 million and RMB6,212.9 million as of December 31, 2022.

The following table sets forth a summary of our cash flows for the years indicated:

	Year ended December 31,	
	2023 RMB million	2022 RMB million
Net cash used in operating activities	<b>(3,234.3)</b>	(3,084.5)
Net cash generated from/(used in) investing activities	<b>3,458.4</b>	(9,298.2)
Net cash generated from financing activities	<b>1,083.6</b>	3,329.1
Net increase/(decrease) in cash and cash equivalents	<b>1,307.7</b>	(9,053.6)
Cash and cash equivalents at the beginning of the year	<b>7,962.8</b>	16,529.5
Exchange changes on cash and cash equivalents	<b>153.0</b>	486.9
Cash and cash equivalents at the end of the year	<b>9,423.5</b>	7,962.8

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

### Net Cash Used in Operating Activities

Net cash used in operating activities represents the cash used in our operations plus the income tax paid. Cash used in our operations primarily comprises our loss before income tax adjusted by non-cash items and changes in working capital.

For the year ended December 31, 2023, net cash used in operating activities was RMB3,234.3 million, which was primarily attributable to our loss before income tax, as adjusted by depreciation and amortization, fair value losses on financial assets at fair value through profit or loss and provision for impairment of financial assets and contract assets.

### Net Cash Generated from/(Used in) Investing Activities

For the year ended December 31, 2023, net cash generated from investing activities was RMB3,458.4 million, which was mainly attributable to net decrease in investments in term deposits, partially offset by purchase of property, plant and equipment, and acquisition of debt and equity investments. Cash used in acquisition of debt and equity investments has decreased significantly compared with 2022, as we continue to increase investing discipline.

### Net Cash Generated from Financing Activities

For the year ended December 31, 2023, net cash generated from financing activities was RMB1,083.6 million, which was mainly attributable to net proceeds from borrowings.

### Borrowings

As of December 31, 2022 and December 31, 2023, we had total borrowings of RMB3,228.6 million and RMB4,473.1 million, respectively. Repayment analysis and the currency denomination of bank borrowings of the Group as at December 31, 2023 are set out in Note 34 to the consolidated financial statements.

The Group maintains a prudent approach in its treasury management with interest rate exposure maintained principally on a floating rate basis. The Group did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk. The Group will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arises.

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

### **Exposure to Exchange Rate Fluctuation**

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 Company's functional currency is USD. The Company's primary subsidiaries were incorporated in Mainland China, Hong Kong, Japan and Singapore. These subsidiaries considered RMB, HKD, JPY and SGD as their functional currencies, respectively.

We are primarily exposed to changes in HKD/RMB and HKD/USD exchange rates. We currently do not engage in hedging activities designed or intended to manage foreign exchange rate risk. However, we will continue to monitor changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact.

### **Employees, Training and Remuneration Policies**

As at December 31, 2023, the Group had 4,531 employees. The number of employees employed by the Group varies from time to time depending on needs.

The Group formulates the remuneration package for its employees based on the overall remuneration standard in the market, industry practice and the Group's remuneration strategy. In addition to salary, in-house training programmes and employee benefits, employees may receive year-end performance incentives depending on their individual performance, which includes cash incentives or share options.

### **Use of Proceeds**

The Class B Shares of the Company were listed on the Main Board of the Stock Exchange on December 30, 2021. The net proceeds received by the Company from the Global Offering (as defined in the Prospectus), including the full exercise of the over-allotment option, were approximately HK\$6,351.0 million. Please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus for details of the intended use of proceeds.

As of December 31, 2023, approximately HK\$6,306.2 million of the net proceeds had been utilised by the Group in accordance with the intended purposes and expected timeframe stated in the Prospectus, and the unutilised net proceeds was held by way of bank deposits.

## Management Discussion and Analysis

Year ended December 31, 2023 compared to Year ended December 31, 2022

For the reasons set out in the paragraph headed “Reasons for Extending the Expected Timeline for Use of Proceeds” below, the Board has resolved to extend the expected timeline of the use of the unutilised net proceeds for the same intended purpose (i.e. expansion of our business). Details of the use of proceeds and the updated expected timeline for utilisation of the unutilised net proceeds are set out below:

Intended purposes as set out in the Prospectus	Planned proportion of the net proceeds (%)	Planned use of the net proceeds (Approximately HK\$ million)	Net proceeds unused as of December 31, 2022 (Approximately HK\$ million)	Actual use of net proceeds during the Reporting Year (Approximately HK\$ million)	Net proceeds unused as of December 31, 2023 (Approximately HK\$ million)	Updated expected timeline for fully utilising the net proceeds from the Global Offering
(i) Enhancing our research and development capabilities	60.0	3,810.6	209.3	209.3	–	N.A.
(ii) Expansion of our business	15.0	952.7	694.5	649.7	44.8	by December 2024 <sup>(Note)</sup>
(iii) Pursuing strategic investment and acquisition opportunities	15.0	952.7	–	–	–	N.A.
(iv) Working capital and general corporate purposes	10.0	635.0	–	–	–	N.A.
<b>Total</b>	<b>100.0</b>	<b>6,351.0</b>	<b>903.8</b>	<b>859.0</b>	<b>44.8</b>	

Note: as stated in the Prospectus, it was expected that the Group would fully utilise such net proceeds within two to three years from the listing of its Class B Shares on the Stock Exchange. In line with such intended timeline, it was originally contemplated that such net proceeds would be fully utilised on or before December 31, 2023 as stated in the results announcements of the Company for the six months ended June 30, 2022 and 2023 and for the year ended December 31, 2022. The updated expected timeline for utilisation of the unutilised net proceeds above remains generally in line with the expected timeline as set out in the Prospectus and is based on the Group’s best estimation and is subject to change based on future development of market conditions.

Year ended December 31, 2023 compared to Year ended December 31, 2022

### **Reasons for Extending the Expected Timeline for the Use of Proceeds**

Taking into account the external business environment in the past few years, the Company expects that additional time will be required to explore suitable business opportunities for the expansion of the business of the Group, including but not limited to investments in emerging business opportunities and increasing the adoption and penetration of the Group's product and service offerings, exploring commercialization opportunities for our software platforms, and expanding our sales force and marketing spending to continue to strengthen the client engagement capabilities of the Group.

The Board considers that the extension of the expected timeline for full utilisation of the unutilised net proceeds will not have any material adverse impact on the existing business and operations of the Group and is in the interest of the Company and the Shareholders as a whole. Save as disclosed in the Company's results announcement dated March 26, 2024 and in this annual report, there is no other change to the plan for the unutilised net proceeds.

The Board will continuously assess the plan for the use of the unutilised net proceeds and to reconsider such plan where necessary and appropriate in light of the prevailing market conditions and the business needs of the Group.

The utilization of the net proceeds has been converted from RMB into HKD at an exchange rate of RMB0.81912 to HKD1.00 (the reference exchange rate used in the Prospectus). No representation is made that any amount in HKD or RMB could have been or could be converted at the above rates or of any other rates.

### **Gearing Ratio**

As of December 31, 2023, our gearing ratio was -14.8%, which represented a net cash position. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial year. Net debt equals to our total borrowings, lease liabilities and preferred share and other financial liabilities less our cash and cash equivalents. Total capital is calculated as total equity plus net debt.

### **Contingent Liabilities**

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

### **Significant Investments held**

As of December 31, 2023, we did not hold any significant investments in the equity interest of other companies.

### **Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures**

For the year ended December 31, 2023, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

### **Pledge of Assets**

As of December 31, 2023, we pledged certain buildings and land use rights with carrying amount of RMB4,336.0 million and restricted guarantee deposits amounting to RMB324.0 million for borrowings.

### **Future Plans for Material Investments and Capital Assets**

As of December 31, 2023, we have no specific future plan for material investments and acquisition of capital assets. The Group will continue to identify new investment opportunities in companies with principal businesses related to the Group's core business with a view to create synergies with the Group's existing core business and improve the Group's service and products to its customers.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its Shareholders. The principles of the Company's corporate governance are to promote effective internal control measures and to enhance the transparency and accountability of the Board to all the Shareholders.

In the opinion of the Board, throughout the Reporting Period, the Company has complied with all applicable code provisions under the Corporate Governance Code, save for the deviations from code provisions C.2.1, C.5.1 and F.2.2 which are further explained in the sections headed "Chairman and Chief Executive Officer", "Board Meetings" and "Shareholders' Meetings" below respectively.

The Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

The Board is also committed to ensuring that the culture of the Company aligns with its purpose, values and strategy. A healthy corporate culture across the Company is vital for it to achieve its vision and mission towards sustainable growth. It is the Board's role to foster a corporate culture with the following core principles to guide the behaviour of its employees, and ensure that the Company's vision, values and business strategies are consistent with it:

### 1. Integrity and Code of Conduct

The Company strives to maintain high standards of business ethics and corporate governance across all our activities and operations. The Directors, management and staff are all required to act lawfully, ethically and responsibly, and the required standards and norms are explicitly set out in the training materials for all new staff and embedded in various policies, such as the anti-corruption policy and the whistleblowing policy of the Company. Trainings and professional development courses are conducted from time to time to reinforce the required standards in respect of ethics and integrity. For details, please refer to the section headed "Training and Professional Development" in this annual report.

### 2. Commitment

The Company believes that the culture of commitment to workforce development, workplace safety and health, diversity, and sustainability is one where people have a feeling of commitment and emotional engagement with our mission. This sets the tone for a strong, productive workforce that attracts, develops, and retains the best talent and produces the highest quality work. Moreover, the Company's business development strategy is to achieve long-term, steady, and sustainable growth, while also having due regard for environment, social and governance aspects.

## BOARD OF DIRECTORS

### Board Composition

As at the Latest Practicable Date, the Board comprises the following Directors:

#### Executive Directors

Dr. XU Li (徐立) (*Executive Chairman of the Board*)

Dr. WANG Xiaogang (王曉剛)

Mr. XU Bing (徐冰)

#### Non-executive Director

Ms. FAN Yuanyuan (范瑗瑗)

#### Independent non-executive Directors

Prof. XUE Lan (薛瀾)

Mr. LYN Frank Yee Chon (林怡仲)

Mr. LI Wei (厲偉)

As disclosed in the announcement of the Company dated December 17, 2023, Prof. Tang Xiao'ou (then an executive director) passed away on December 15, 2023.

An up-to-date list of the Directors and their roles and functions is maintained on the Company's website and the Stock Exchange's website. The biographical details of the Directors are set out in the section headed "Biographical Details of Directors" in the Directors' Report.

To the best knowledge of the Company, there is no relationship (including financial, business, family or other material/relevant relationship(s)) among the Directors.

Throughout the Reporting Period, the Board has met the requirements of the Listing Rules regarding the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications, or accounting, or related financial management expertise. To provide transparency to the investor community and in compliance with the Listing Rules and the Corporate Governance Code, the independent non-executive Directors of the Company are clearly identified in all corporate communications containing the names of the Directors.

### Board Independence

The Company recognises the importance of board independence, which enhances the effectiveness of the Board and the governance of the Group. In light of this, the Company adopts the following key mechanisms under its governance structure, which is subject to annual review by the Board, to ensure that independent views and inputs are provided to the Board:

- the Company has complied with the requirements as to appointment of independent non-executive Directors under the Listing Rules since its listing, and all or majority of the members of the Board committees comprise independent non-executive Directors only;
- the Company has adopted a Board Diversity Policy to adopt formal practices for assessing the independence of the independent non-executive Directors annually with regards to all relevant factors, and to ensure that a wide range of criteria will be taken into account in considering suitable candidates to serve as a Director. Please refer to the paragraph headed "Board Diversity Policy" below for further details;
- the Board and the Nomination Committee will evaluate on an annual basis as to whether an independent non-executive Director is independent in accordance with the Corporate Governance Code and the relevant requirements under Rule 3.13 of the Listing Rules. Annual confirmations will also be obtained from each independent non-executive Director in this regard;
- in the event that any independent non-executive Director proposes to serve beyond nine years since the date of his or her first appointment, the Board and the Nomination Committee will carefully consider whether such reappointment will affect his or her independence;
- the Company will not grant any share incentives to the independent non-executive Director to ensure the independence of their judgement and opinion;

## Corporate Governance Report

- the time commitment of Directors (including but not limited to the independent non-executive Directors) for performance of their responsibilities will be evaluated at least annually by the Board; and
- any Directors (including but not limited to the independent non-executive Directors) will be entitled to seek independent advices from external advisers if and when necessary for the performance of their duties.

The Company has received the annual written confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. There is also no independent non-executive Director who has served beyond nine years since the date of his or her first appointment. The Company is of the view that all independent non-executive Directors are independent.

### Responsibilities and Delegation

The Board is responsible for the leadership and control of the Company, directing and supervising the Company's affairs and acting in the best interests of the Company and its Shareholders.

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have 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 discretion on all major matters relating to policy matters, strategies and budgets, risk management and internal control, material transactions (in particular those that may involve 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 operation and management of the Company are delegated to the chief executive officer and management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

### Chairman and Chief Executive Officer

Pursuant to code provision C.2.1 of Part 2 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Dr. Xu Li currently performs these two roles. The Board believes that vesting the roles of both executive chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of executive chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

## Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

For other Board meetings and Board committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are despatched to the Directors or Board committee members at least three days before such meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

The matters considered by the Board and Board committees during the meetings and the decisions reached are recorded in sufficient details in the minutes of the meetings kept by the Joint Company Secretaries. Such details include, but are not limited to, any concerns raised by the Directors. The draft minutes of each Board meeting and Board committees meeting are sent to the relevant Directors for comments within a reasonable time after the meeting is held. All minutes are properly maintained by the Joint Company Secretaries and are available for the Directors' and Board committee members' inspection.

During the Reporting Period, the Company held 3 Board meetings, 3 Audit Committee meetings, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and 1 Corporate Governance Committee meeting. The Company held one general meeting during the Reporting Period. The attendance record of each Director at the above meetings are set out in the table below:

A Board meeting and a Corporate Governance Committee meeting were originally scheduled to be held in mid-December 2023. However, due to the passing away of Prof. Tang on December 15, 2023, such meetings were postponed and were held in mid-January 2024 instead. As such, the number of Board meetings and Corporate Governance Committee meetings held during the Reporting Period did not meet the requirements under C.5.1 of the Corporate Governance Code and the terms of reference of the Corporate Governance Committee respectively.

Name of Director	Attendance/Number of Meetings during the Reporting Period					
	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	General Meeting
Dr. XU Li	3	–	–	1	1	0/1
Prof. TANG Xiao'ou*	3	–	–	–	–	0/1
Dr. WANG Xiaogang	3	–	–	–	–	0/1
Mr. XU Bing	3	–	–	–	–	1/1
Ms. FAN Yuanyuan	3	3	–	–	–	1/1
Prof. XUE Lan	2	–	1	1	–	1/1
Mr. LYN Frank Yee Chon	3	3	1	–	1	1/1
Mr. LI Wei	3	2	1	1	0	1/1

\* Prof. TANG Xiao'ou passed away on December 15, 2023

## Corporate Governance Report

In addition to the above meetings, Dr. Xu Li, the chairman of the Board, held a meeting with the independent non-executive Directors without the presence of the other Directors during the Reporting Period.

### Appointment and Re-Election

According to the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

The Board is also empowered under the Articles of Association to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board from time to time and at any time. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Each Director (including the non-executive Director and independent non-executive Directors) is engaged for a term of three years. Details of the terms of the Directors' service contracts or appointment letters (as applicable) are set out in the section headed "Directors' Service Contracts and Appointment Letters". They are subject to retirement and re-election in accordance with the provisions of the Articles as mentioned above.

### Training and Professional Development

Pursuant to code provision C.1.4 of Part 2 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills, so as to ensure that their contribution to the Board remains informed and relevant.

To help the Directors develop and refresh their knowledge and skills, internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company also arranged for its Hong Kong legal advisor to provide training to all Directors (including those who are beneficiaries of weighted voting rights and independent non-executive Directors). The training session covered a wide range of relevant topics including Directors' duties and responsibilities, corporate governance and requirements under the Listing Rules.

The Directors are required to provide details of the training they received in each financial year to the Company for the maintenance of proper training records. Throughout the Reporting Period, the training received by the Directors was as follows:

Name of Director	Type of continuous professional development training
Dr. XU Li	A and B
Prof. TANG Xiao'ou*	A and B
Dr. WANG Xiaogang	A and B
Mr. XU Bing	A and B
Ms. FAN Yuanyuan	A and B
Prof. XUE Lan	A and B
Mr. LYN Frank Yee Chon	A and B
Mr. LI Wei	A and B

\* Prof. TANG Xiao'ou passed away on December 15, 2023

Notes:

A: Attending seminar(s), conference(s), forum(s) and/or training course(s) arranged by the Company or external parties.

B: Perusing materials provided by the Company or external parties, such as materials relating to the Company's business updates, directors' duties and responsibilities, corporate governance and regulatory updates, Chapter 8A of the Listing Rules and weighted voting rights structures, and other applicable regulatory requirements.

## BOARD COMMITTEES

The Board has established four Board committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees are established with specific terms of reference which deal clearly with their authority and duties, and are posted on the Company's website and the Stock Exchange's website.

The Board is responsible for performing the corporate governance duties set out in the Corporate Governance Code which included developing and regularly reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the provisions in the Corporate Governance Code and disclosures in this annual report.

### Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to (i) review and supervise the financial reporting process and the internal control system of the Group, (ii) oversee the audit process, (iii) provide advice and comments to the Board and (iv) perform other duties and responsibilities as assigned by the Board.

The Audit Committee comprises three members (including two independent non-executive Directors and a non-executive Director), namely Mr. Lyn Frank Yee Chon, Ms. Fan Yuanyuan and Mr. Li Wei. Mr. Lyn Frank Yee Chon, being the chairperson of the Audit Committee and an independent non-executive Director, has appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules.

## Corporate Governance Report

During the Reporting Period, the Audit Committee has convened 3 meetings and performed the following major tasks:

- Reviewed the half-yearly and annual results announcements and annual financial reports of the Group to ensure transparency and consistency of the financial disclosures.
- Discussed matters with respect to effectiveness of the Company's financial reporting system, the system of internal control in operation, risk management system and associated procedures within the Group with senior management members, internal auditors and the Auditor.
- Reviewed, with both the external auditor and management, the audit approach and methodology applied, in particular to the Key Audit Matters included in the Auditor's Report.
- Reviewed the plans, resources and work of the Company's internal auditors.
- Approved the internal audit plan for 2023 and conducted half yearly review of the internal audit activities.
- Reviewed significant issues raised by the internal audit department of the Company, the external auditor, external consultants, and management's response to their recommendations.
- Reviewed the continuing connected transactions of the Group carried out during the Reporting Period and the related disclosures in the Annual Report.
- Reviewed the adequacy and effectiveness of the Group's risk management and internal control systems, along with its accounting, financial reporting, and internal audit functions.
- Oversaw the risks undertaken by the Company.
- Oversaw the Group's anti-money laundering system, anti-corruption policy, and whistleblowing mechanism.
- Discussed and made recommendation on the re-appointment of the Auditor.
- Reviewed the independence, terms of engagement and remuneration of PricewaterhouseCoopers for annual audit for the Reporting Period.
- Reviewed the effectiveness of the external audit process.

The Auditor was invited to attend the Audit Committee meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. The Audit Committee also met with the Auditor in the absence of the executive Directors. The Audit Committee is satisfied with the independence and engagement of the Auditor. As such, the Audit Committee has recommended its re-appointment.

The Audit Committee reviewed the interim results of the Group for the six months ended June 30, 2023 and the annual results of the Group for the financial year ended December 31, 2023 in conjunction with the external auditor. Based on this review and discussions with management, the Audit Committee was satisfied that the consolidated financial statements of the Group for the financial year ended December 31, 2023 were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended December 31, 2023. The Audit Committee therefore recommended that the consolidated financial statements of the Group for the financial year ended December 31, 2023 be approved by the Board.

For a summary of the work of the Audit Committee performed in respect of the review of the Company's risk management and internal control systems, please refer to the paragraph headed "Risk Management and Internal Control – Ongoing Review" below.

### Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements which should give a true and fair view of the state of affairs of the Company and of the results and cash flows for such reporting period.

In preparing the financial statements, the Board has adopted generally accepted accounting standards in Hong Kong and suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable, and prepared the financial statements on a going concern basis. The Board is responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The Auditor is responsible for auditing and reporting its opinion on the financial statements of the Company. The independent auditor's report for the Reporting Period is set out in the section headed "Independent Auditor's Report" of this annual report.

### Auditor's Remuneration

For the year ended December 31, 2023, the remuneration for the audit services (which include statutory audits and reviews for the Group and certain subsidiaries) paid to the Auditor amounted to RMB15,290,000; while the remuneration for the non-audit services (which mainly include professional services on tax advisory and internal control consultation services) amounted to RMB698,000.

### Corporate Governance Committee

The Company has established the Corporate Governance Committee in compliance with Rule 8A.30 of the Listing Rules. The primary duties of the Corporate Governance Committee are to (i) ensure that the Company is operated and managed for the benefit of all Shareholders and (ii) ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structures of the Company.

The Corporate Governance Committee comprises three independent non-executive Directors, namely Prof. Xue Lan, Mr. Lyn Frank Yee Chon and Mr. Li Wei. Prof. Xue Lan is the chairperson of the Corporate Governance Committee.

During the Reporting Period, the Corporate Governance Committee has convened 1 meeting and performed the following major tasks:

- Reviewed and monitored the Company's policies and practices on corporate governance, considered whether the adoption of any new policies and practices on corporate governance are necessary, and reviewed the Company's compliance with legal and regulatory requirements and made recommendations to the Board as appropriate. The policies reviewed include the code for securities transactions by Directors and relevant employees, the board diversity policy, the shareholders' communication policy, the procedures for nomination of Directors by Shareholders, the disclosure of information policy, the connected transactions policy, the whistle-blowing policy, the dividend policy and other corporate governance policies.
- Reviewed and monitored the implementation of the Company's Code of Conduct and the Model Code which regulates the Directors' dealings in the securities of the Company.

## Corporate Governance Report

- Reviewed the Company's compliance with the Corporate Governance Code and the deviations from code provisions C.2.1, C.5.1 and F.2.2, the Company's disclosure in this Corporate Governance Report and the Company's disclosure as required under Chapter 8A of the Listing Rules.
- Reviewed the written confirmation provided by the WVR Beneficiaries that (a) they have been members of the Board throughout the year and that no matters under Rule 8A.17 of the Listing Rules have occurred during the year; and (b) they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year ended December 31, 2023. For the avoidance of doubt, Prof. Tang Xiao'ou passed away on December 15, 2023 and the weighted voting rights of the Class A Shares held by Amind ceased upon the passing of Prof. Tang pursuant to Rule 8A.17 of the Listing Rules.
- Reviewed and monitored the management of conflicts of interests between the Company, its subsidiary and/or Shareholder on one hand and any WVR Beneficiary on the other.
- Reviewed and monitored all risks related to the weighted voting rights structure, including connected transactions between the Group on one hand and any WVR Beneficiary on the other.
- Reviewed the training and continuous professional development of Directors and senior management, in particular training relating to requirements under Chapter 8A of the Listing Rules and risks associated with the weighted voting rights structure.
- Sought to ensure effective and on-going communication between the Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.
- Reported on the work of the Corporate Governance Committee covering all areas of its terms of reference.
- Made a recommendation to the Board as to the appointment or removal of the compliance advisor.

In particular, the Corporate Governance Committee has confirmed to the Board it is of the view that the Company has adopted sufficient corporate governance measures to manage the potential conflict of interest between the Company, its subsidiary and/or Shareholder on one hand and any WVR Beneficiary on the other, so as to ensure that the operations and management of the Company are in the interests of the Shareholders as a whole indiscriminately. These measures include the Corporate Governance Committee (a) reviewing and monitoring transactions contemplated to be entered into by the Group and making a recommendation to the Board on any matter where there is a potential conflict of interest between the Company, its subsidiary and/or Shareholder on one hand and any WVR Beneficiary on the other, and (b) ensuring that (i) any connected transactions are disclosed and dealt with in accordance with the requirements of the Listing Rules, (ii) the terms of connected transactions are fair and reasonable and in the interest of the Company and its Shareholders as a whole, (iii) any Directors who have a conflict of interest abstain from voting on the relevant board resolution, and (iv) the Compliance Advisor is consulted on any matters related to transactions involving the WVR Beneficiaries or a potential conflict of interest between the Group and any WVR Beneficiary. The Corporate Governance Committee recommended the Board to continue the implementation of these measures and to periodically review their efficacy towards these objectives.

Having reviewed the remuneration and terms of engagement of the Compliance Advisor, the Corporate Governance Committee confirmed to the Board that it was not aware of any factors that would require it to consider either the removal of the current compliance advisor or the appointment of a new compliance advisor. As a result, the Corporate Governance Committee recommended that the Board retain the services of the Compliance Advisor.

### Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with Rule 8A.27 of the Listing Rules and the Corporate Governance Code. The primary duties of the Nomination Committee are to (i) review the structure, size and composition of the Board on a regular basis and make recommendations to our Board regarding any proposed changes to the composition of the Board, (ii) identify, select or make recommendations to the Board on the selection of individuals nominated for directorship, and ensure the diversity of Board members, (iii) assess the independence of the independent non-executive Directors and (iv) make recommendations to the Board on relevant matters relating to the appointment, re-appointment and removal of Directors and succession planning for Directors.

The Nomination Committee comprises three members (including two independent non-executive Directors and an executive Director), namely Mr. Li Wei, Dr. Xu Li and Prof. Xue Lan. Mr. Li Wei is the chairperson of the Nomination Committee.

During the period from the Reporting Period, the Nomination Committee has convened 1 meeting and performed the following major tasks:

- Reviewed the structure, size and composition of the Board and its committees to ensure that they have a balance of expertise, skills and experience appropriate to the requirements for the business of the Group.
- Assessed the independence of all the independent non-executive Directors.
- Recommended the re-election of the retiring Directors at the 2023 annual general meeting of the Company.
- Reviewed the board diversity policy and the policy for the nomination of directors during the Reporting Period.

### Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse Board and see increasing diversity at the Board level, including gender diversity, as an essential element in maintaining our competitive advantage and enhancing our ability to attract, retain and motivate employees from the widest possible pool of available talent. We have adopted a board diversity policy (the “Board Diversity Policy”) with the aim of achieving an appropriate level of diversity among Board members according to the circumstances of the Group from time to time. The Board Diversity Policy, which is subject to annual review by the Nomination Committee, formally recognises the practice of ensuring that independent views and input are made available to the Board.

The Board Diversity Policy highlights the important role in the Board that independent non-executive Directors play in bringing an impartial view on the Company’s strategies, performance and control, as well as ensuring that the interests of all shareholders are considered. In order to ensure that independent views and input of the independent non-executive Directors are made available to the Board, the Nomination Committee and the Board will annually assess the Directors’ independence with regards to all relevant factors. These factors include whether the independent non-executive Directors possess appropriate academic, professional qualifications or related financial management experience, and whether they hold any other offices in the Company or any of its subsidiaries or is interested in any shares of the Company.

## Corporate Governance Report

Pursuant to the Board Diversity Policy, in reviewing and assessing suitable candidates to serve as a Director, the Nomination Committee would consider a range of diversity of perspectives with reference to the Company's business model and specific needs, including but not limited to skills, knowledge, professional experience and qualifications, industry and regional experience, cultural and educational background, age, gender and the potential contributions that the candidate is expected to bring to the Board. All Board appointments will be based on merits and candidates will be considered against objective criteria, having due regard to the benefits of diversity to the Board. The Nomination Committee also reviews the Board Diversity Policy from time to time to ensure its continued effectiveness.

The Board has a balanced mix of experiences and skills, including but not limited to overall business management, research and development as well as finance and accounting. The Board also has a relatively wide range of age, ranging from 34 years old to 65 years old. In addition, in terms of gender diversity, the Board also currently has one female member. The Board therefore believes that the composition of the current Board satisfies the Board Diversity Policy.

The Board places strong emphasis on diversity (including but not limited to gender diversity) at the Board level and across all levels of the Group. Taking into account the Board's view that the current Board composition satisfies the Board Diversity Policy, the Board targets to maintain at least the current level of female representation in the Board. In considering the Board's succession, the Board will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, employees and management of the Group, and engaging external search firms. These measures will ensure that the Board will be able to develop a pipeline of potential successors to the Board, such that the Board will be able to take the opportunity to further increase the diversity on the Board (including but not limited to the proportion of female members of the Board) as and when such opportunity arise and suitable candidates are identified, taking in account the selection criteria as outlined under the paragraph "Nomination Procedures" below.

In addition to gender diversity within the Board, the Company is also committed to promoting gender diversity among its workforce generally. As at the Latest Practicable Date, the gender ratio in the Company's workforce (including senior management) is as follows:

Male	74.3%
Female	25.7%
Total	100%

The Company targets to maintain at least the current level of gender diversity in its workforce. In order to achieve such goals while also ensuring that the Group's business needs and objectives may be met and diversity across all other aspects may be achieved, the Group will continue to adopt a gender neutral employment policies to ensure that candidates of all skills, background qualities and gender will be allowed equal opportunities to be considered, and the Group will be able to select its employees from a diversified pool of talents.

Given that the AI industry is a highly specialised industry, the employees of the Group are often required to possess specialised skill sets and undergo extensive professional trainings in order to be able to meet the business needs and objectives of the Group. As such, this may pose challenges to the Group in terms of achieving gender diversity in the workforce on the one hand, and recruiting talents which are able to meet the Group's business needs and objectives on the other hand. In this regard, the Group has also developed various training programs for its employees as outlined in its Environmental, Social and Governance Report, such that the Group may continue to recruit from a broad base of talents and improve its workforce diversity, whilst also empowering its employees from all skills, background, qualities and gender to meet the business needs of the Group.

### Nomination Procedures

The Nomination Committee and the Board may nominate candidates for directorship. In assessing the suitability and the potential contribution to the Board of a proposed candidate, the Nomination Committee may make reference to certain selection criteria, such as reputation for integrity, professional qualifications and skills, accomplishment and experience in the internet and technology markets, commitment and relevant contribution, diversity in all aspects. The Nomination Committee shall report its findings and make recommendation to the Board on the appointment of appropriate candidate for directorship for decision and succession planning. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

### Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the Remuneration Committee are to (i) establish, review and provide advice to the Board on the policy and structure of the remuneration for the Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning remuneration, (ii) review and make recommendations to the Board on the terms of the specific remuneration package of each Director and member of senior management, (iii) review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules, and (iv) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

The Remuneration Committee comprises three members (including two independent non-executive Directors and an executive Director), namely Mr. Li Wei, Dr. Xu Li and Mr. Lyn Frank Yee Chon. Mr. Li Wei is the chairperson of our remuneration committee.

During the Reporting Period, the Remuneration Committee has convened 1 meeting and performed the following major tasks:

- Reviewed the remuneration policy, remuneration packages and service contracts of the Directors and the senior management of the Company.
- Conducted regular reviews with reference to companies with comparable business or scale.
- Consult with the Chairman of the Board about the performance of executive Directors and senior executives.

The 2022 RSU Scheme was adopted on June 20, 2022. The 2022 RSU Scheme constituted a share scheme under the updated Chapter 17 of the Listing Rules, which came into effect since January 2023. Since the date of adoption of the 2022 RSU Scheme up to the date of this annual report, no grants were made under the 2022 RSU Scheme. The Remuneration Committee will review and/or approve matters in relation to the 2022 RSU Scheme in accordance with the requirements under Chapter 17 of the Listing Rules as and when such matters are proposed under the 2022 RSU Scheme.

### Remuneration Policy

The Directors and members of senior management receive remuneration from the Company in the form of fees, wages and salaries, discretionary bonuses, share-based compensation and other benefits in kind.

The Board regularly reviews and determines the remuneration and compensation packages of the Directors and senior management and receives recommendation from the Remuneration Committee, which takes into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

## Corporate Governance Report

Pursuant to code provision E.1.5 of Part 2 of the Corporate Governance Code, the annual remuneration (including share-based compensation) of the members of senior management, including those members of senior management who are also executive Directors, by band for the Reporting Period is set out below:

Annual remuneration	Number of individual
HK\$0 to HK\$0.5 million	1
HK\$2 million to HK\$2.5 million	1
HK\$2.5 million to HK\$3 million	1
HK\$3.5 million to HK\$4 million	1
HK\$4.5 million to HK\$5 million	1
HK\$11 million to HK\$11.5 million	1

Further details of the remuneration of Directors for the Reporting Period are set out in Note 39 to the Consolidated Financial Statements in this annual report.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility for the risk management and internal control of the Company. 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 Company is dedicated to the establishment and maintenance of a robust risk management and internal control system. We have adopted and continually improve our internal control mechanisms to ensure the compliance of our business operations. Furthermore, we conduct periodic review of the implementation of our risk management policies and internal control measures to ensure their effectiveness and sufficiency. The Board has received a confirmation from management of the Company that the Company's risk management and internal control systems in place are effective.

We have been committed to promoting a compliance culture and will adopt policies and procedures on various compliance matters, including the Stock Exchange's requirements on corporate governance and environmental, social and governance matters. Our Board

will be collectively responsible for the establishment and operations of mechanisms in relation to corporate governance and environmental, social and governance. Our Directors are involved in the formulation of such mechanisms and the related policies.

We have adopted and implemented risk management policies in various aspects of our business operations to address various potential risks in relation to operations, compliance, information security and data privacy, intellectual property and investment.

### Operational Risk Management

Operational risk refers to the risk of direct or indirect financial loss resulting from incomplete or problematic internal processes, personnel mistakes, IT system failures or external events. We have established a series of internal procedures to manage such risk.

We take a comprehensive approach with regard to operational risk management, and implement a mechanism with detailed and decentralized responsibilities and clear rewards and punishment systems. Our information technology, human resources, finance and operations departments are collectively responsible to ensure the compliance of our operations with internal procedures. In the event of a major adverse event, the matter will be escalated to our CEO and the Board to take appropriate measures. Through effective operational risk management, we expect to control operational risks within a reasonable range by identifying, measuring, monitoring and containing operational risks to reduce potential losses.

### Compliance Risk Management

Compliance risk refers to the risk of being subject to legal and regulatory sanctions, and the risk of major financial and reputational losses as a result of our failure to comply with relevant laws, regulations, rules and guidelines.

Compliance management refers to the dynamic managing processes of our effective identification and management of compliance risks and proactively preventing the occurrence of risk events. Compliance risk management is the core of our risk management activities, the foundation for effective internal controls and an important aspect of our corporate culture. We have established a sound

compliance risk management framework as part of our comprehensive risk management system, to achieve effective identification and management of compliance risk and ensure that our operations are in compliance with applicable laws and regulations.

### Information Security and Data Privacy Risk Management

We attach the greatest importance to data security and protection. We have adopted our standard protective measures including confidentiality categorization, access control, data encryption and desensitization to prevent unauthorized access, leakage, improper use or modification of, damage to or loss of data and personal information.

Our Data Security and Personal Information Protection Management Committee oversees our data security and personal information protection efforts. We have built up a comprehensive personal information management system and formulated a series of technical standards and specifications to ensure data and personal information security throughout their life cycle.

### Intellectual Property Risk Management

We have implemented a set of comprehensive measures to protect our intellectual property. The key measures include:

- **Uniform and centralized IP management:** We conduct uniform and centralized IP management through our legal and IP department. Any application, implementation, authorization or transfer of our intellectual property rights will need to be subject to the approval of our legal and IP department.
- **Shared IP rights within Group:** Any of our intellectual property rights, as long as they are owned by one of our subsidiaries or controlled entities, can be shared among Group members for manufacturing, import, sales or promise to sell relevant products.

### Investment Risk Management

We invest in or acquire businesses that are complementary to our business and aligned with our overall growth strategies, such as businesses that can expand our service offerings and strengthen our technological capabilities. In general, we intend to hold our investments for the long term in forms of preferred shares or ordinary shares with preference rights. In order to manage potential risks associated with investments, we generally obtain minority protection rights from our investment portfolio companies.

Our strategic investment department has primarily been responsible for our investment project sourcing, screening, due diligence, risk assessment, valuation, execution and post-investment monitoring. Each investment is assessed with consideration of strategic value, risks and reward. We have established investment project evaluation and approval processes. Our Investment Committee reviews and determines all new investments and major disposals.

### Anti-corruption Risk Management

Anti-corruption risk refers to the risk of use of cheating, bribery or other illegal measures for (i) the pursuit of improper personal benefits at the expense of our Company's economic interests and (ii) the pursuit of improper interests of the Company. We have established our anti-corruption risk management policies prohibiting any corruption activities by the employees, either for the pursuit of improper personal benefits or improper interests of the Company. We have established an anti-corruption committee for the anti-corruption risk management, comprising designated personnel from our human resources, internal control, internal audit and legal and compliance departments. We have zero-tolerance of corruption and do not accept employment or promotion of persons responsible for corruption incidents. We conduct routine internal trainings and require all suppliers to execute anti-corruption commitments before engagement.

## Corporate Governance Report

### Whistleblowing Policy

We have maintained a whistleblower mechanism to encourage the internal reporting of suspicious activities. The purpose of this mechanism is to (i) foster a culture of compliance, ethical behaviour and good corporate governance across the Company; and (ii) promote the importance of ethical behaviour and encourages the internal reporting of misconduct, unlawful and unethical behavior. The nature, status and the results of the complaints received under the whistleblower mechanism are reported to the anti-corruption committee as mentioned above. The anti-corruption committee may then report any complaints received or any matters of significance to the Audit Committee as and when necessary. No incident of fraud or misconduct that have material effect on the Company's financial statements or overall operations for the year ended December 31, 2023 has been discovered.

### Ongoing Review

To monitor the ongoing implementation of our risk management policies, we have established an Audit Committee to review and supervise our financial reporting process, internal control system and internal audit functions on an ongoing basis and at least annually, so as to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. For details, please refer to the section headed "Board Committees – Audit Committee" above.

In addition to our internal control department, we have also established an internal audit department which is responsible for reviewing the effectiveness of internal controls and reporting issues identified and improving our internal control system and procedures by identifying internal control failures and weaknesses on an ongoing basis. The internal audit department reports any major issues identified to the Audit Committee and Board of Directors on a timely basis.

In respect of the Reporting Period, the Board through the Audit Committee conducted a review of the risk management and internal control systems of the Company and concluded that they are effective and adequate. The Board through the Audit Committee has also reviewed the Group's internal audit functions, including but not limited to the sufficiency of resources, staff qualifications and experiences, and training programs, and were satisfied with the effectiveness of the internal audit functions. In addition, in response to a short seller report (as referred to in the Company's announcements dated November 28, 2023 and December 5, 2023 respectively), the Board through the Audit Committee conducted a review of the facts and internal procedures and practices in relation to the allegations, and concluded that the allegations as set out in such short seller report were unfounded and misleading.

### SECURITIES DEALING AND HANDLING OF INSIDE INFORMATION

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 of the Listing Rules as the code of conduct regulating Directors' dealings in securities of the Company. In response to specific enquiries made by the Board, all Directors confirmed that they have complied with the provisions of the Model Code during the Reporting Period.

To supplement the Model Code, the Company has also implemented a policy in relation to the handling and dissemination of inside information. Access to inside information is at all times confined to relevant personnel (i.e. Directors, senior management and relevant employees) on a need-to-know basis, until the inside information is properly disclosed in accordance with applicable laws and regulations. Directors, senior management and relevant employees in possession of inside information or potential inside information are required to take reasonable steps to preserve confidentiality and to ensure that its recipients recognize their obligations to maintain confidentiality. The policy also sets out the relevant procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees with general guidance in monitoring information disclosure.

## JOINT COMPANY SECRETARIES

The Joint Company Secretaries are responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. The current Joint Company Secretaries are Ms. Lin Jiemin and Ms. Wong Wai Yee Ella.

Ms. Lin joined the Group in August 2018 and has been serving as the Company's vice president since then. Prior to joining the Group, she had extensive working experience at Hong Kong Exchanges and Clearing Limited, with her last position being its deputy chief operating officer. Ms. Lin is the primary contact person at the Company.

Ms. Wong has been appointed to assist Ms. Lin. Ms. Wong, director of corporate services in Vistra Group, has over 20 years of experience in the corporate secretarial field and provides corporate secretarial and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies.

During the Reporting Period, each of the Joint Company Secretaries has attended a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investors relation as well as the functions and duties of the company secretary of a Hong Kong listed issuer as required under Rule 3.29 of the Listing Rules.

## RELATIONSHIP WITH SHAREHOLDERS

### Communication with Shareholders

The Board believes that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables the Shareholders and investors to make the best investment decision.

The Company communicates with the Shareholders and the investment community mainly through the Company's financial reports (including the interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website.

### Shareholders' Meetings

The general meetings of the Company serve as an opportunity for the Directors and senior management to communicate with the Shareholders. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings. Notice in writing is given by the Company to the Shareholders at least 21 days before an annual general meeting and at least 14 days before any extraordinary general meeting.

Board members, in particular, the chairperson of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer Shareholders' questions.

Code provision F.2.2 of Part 2 of the Corporate Governance Code provides that, amongst others, that the chairman of the Board should attend the annual general meeting. Due to other work engagement of the Group, Dr. Xu Li, the chairman of the Board, was unable to attend the annual general meeting held by the Company on June 23, 2023. The aforementioned annual general meeting was attended by, amongst others, the independent non-executive Directors (who are also the chairmen of the Board committees of the Company) and the external auditors to ensure effective communication with the Shareholders.

The process of the Company's general meeting will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that Shareholders' needs are best served.

## Corporate Governance Report

### Corporate Communication

Corporate communication will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding about the content of the communication. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means). Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communications.

### Company's Website

The Company maintains a website at [www.sensetime.com](http://www.sensetime.com) as a communication platform with the Shareholders and investors. Information on the Company's website is updated on a regular basis. Information released by the Company to the website of the Stock Exchange is also posted on the Company's website for corporate communications immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc.

### Shareholders' Enquiries

Shareholders and investors may send written enquiries or requests to the Company, for the attention of the Board of Directors. The contact details are as follows:

Address: 2/F, Harbour View 1, 12 Science Park East Avenue, Hong Kong Science & Technology Park, Shatin, Hong Kong  
 Email: [ir@sensetime.com](mailto:ir@sensetime.com)

Shareholders may direct their questions about their shareholdings to the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. The Company ensures that the Hong Kong Share Registrar maintains the most up-to-date information relating to the Shares at all times so that it can respond effectively to the Shareholders' enquiries.

### Policies Relating to Shareholders

#### Shareholders' Communication Policy

The Company has established a shareholders' communication policy with the objective of ensuring that the Shareholders and the investment community at large are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to enhance the communication among Shareholders, the investment community and the Company.

The Corporate Governance Committee reviews the shareholders' communication policy on a regular basis to ensure its effectiveness, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules. The Corporate Governance Committee has reviewed the implementation and effectiveness of the shareholders' communication policy during its meetings, and are of the view that the shareholders' communication policy has been effectively implemented and that the dissemination of information to the Shareholders' were effective.

#### Dividend Policy

Pursuant to code provision F.1.1 of Part 2 of the Corporate Governance Code, the Company has adopted a dividend policy (the "Dividend Policy") in relation to the declaration, payment or distribution of the Company's net profits as dividends to the Shareholders.

The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the Shareholder, taking into account factors set out in the Dividend Policy such as the Company's financial results and cash flow situation. Dividends may be proposed and/or declared by the Board for a financial year or period, and any final dividend for a financial year will be subject to Shareholders' approval.

## Shareholders' Rights

To safeguard the Shareholders' interests and rights, separate resolutions are proposed at the Shareholders' meetings on each substantial issue, including the election of individual Directors, for the Shareholders' consideration and voting. All resolutions put forward at the Shareholders' meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company ([www.sensetime.com](http://www.sensetime.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) after each Shareholders' meeting.

Pursuant to the Articles of the Company, extraordinary general meetings shall be convened on the written requisition of any Shareholder or Shareholders entitled to attend and vote at general meetings of the Company who hold not less than 10 per cent of the paid up voting share capital of the Company for a date no later than 21 days from the date of deposit of the requisition signed by the requisitionists. The written requisition shall be deposited at the registered office of the Company and shall specify the objects of the meeting requisitioned. If the Directors do not convene such meeting for a date not later than 45 days after the date of such deposit, the requisitionists themselves may convene the general meeting in the same manner, as nearly as possible, as that in which general meetings may be convened by the Directors. All reasonable expenses incurred by the requisitionists as a result of the failure of the Directors to convene the general meeting shall be reimbursed to them by the Company.

There is no provision allowing the Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Laws or the Articles. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

A shareholder who wishes to nominate a person to stand for election as a Director of the Company at the general meeting shall serve the following documents at the registered office of the Company, namely (1) his/her/its notice of intention to propose a resolution at the general meeting; (2) a notice signed by the nominated candidate of his/her willingness to be elected; (3) the nominated candidate's information as required to be disclosed under Rule 13.51(2) of the Listing Rules; and (4) the nominated candidate's written consent to the publication of his/her personal data. The period for lodgment of such written notice shall be at least 7 days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting. For details, please refer to the Procedures for Shareholders to Nominate a Person for Election as a Director available on the website of the Company ([www.sensetime.com](http://www.sensetime.com)).

## Amendments to Constitutional Documents

During the Reporting Period, the Company has adopted its amended and restated Memorandum and Articles of Association pursuant to the shareholders' resolutions passed on June 23, 2023. Details of the amendments are set out in the Company's circular dated May 29, 2023 issued to the Shareholders. The amended and restated Memorandum and Articles of Association, is available on the websites of the Company ([www.sensetime.com](http://www.sensetime.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

## Details of the Interests and Short Positions in Shares and Underlying shares of the Company

For details of the holdings of the Directors, the chief executive and substantial shareholders in the Shares and underlying shares of the Company as at December 31, 2023, please refer to the sections headed "Directors' Interests and Short Positions in Shares, Underlying shares and Debentures of the Company or any Associated Corporations" and "Substantial Shareholders' Interests and Short Positions in Shares and Underlying shares of the Company" in this annual report.

# Directors' Report

The Board of Directors is pleased to present this Directors' Report together with the audited consolidated financial statements of the Group for the year ended December 31, 2023.

## GENERAL INFORMATION ABOUT THE COMPANY

### Principal Activities

The Group is a leading AI software company focused on creating a better AI-empowered future through innovation. The principal activities of the Group are the sale of advanced AI software platform and related services, sale of AI software-embedded hardware and related services, AIDC service as well as research and development activities in relation to AI technology. The Company is an investment holding company and details and principal activities of its principal subsidiaries are set out in Note 12 to the consolidated financial statements.

### Business Review

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance, including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business, a description of the principal risks and uncertainties facing the Group and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of the Group's business review.

### Results and Appropriations

The results of the Group for the year ended December 31, 2023 are set out in the consolidated statement of profit or loss.

The Company has adopted a dividend policy in relation to the declaration, payment or distribution of the Company's net profits as dividends to the Shareholders. For details regarding the dividend policy, please refer to the section headed "Dividend Policy" of the Corporate Governance Report. In compliance with this policy and upon due consideration of the Shareholders' and the Company's long-term interests, the Board has resolved not to recommend any final dividend for the year ended December 31, 2023.

### Five-Year Financial Summary

A summary of the condensed consolidated results and financial positions of the Group is set out on page 4 of this annual report.

### Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 17 to the consolidated financial statements.

### Share Capital

Details of movements in the share capital of the Company during the Reporting Period are set out in Note 28 to the consolidated financial statements.

### Distributable Reserves

As at December 31, 2023, the Company had distributable reserves amounting to RMB71,740.5 million.

Details of the movements in the reserves of the Company during the Reporting Period are set out in Note 29 to the consolidated financial statements.

### Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2023 are set out in Note 34 to the consolidated financial statements.

### Issuance of Debentures

During the Reporting Period and up to the Latest Practicable Date, the Group has not issued any debentures.

### Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at December 31, 2023 and the Latest Practicable Date, the Company maintained the prescribed percentage of public float under the Listing Rules.

### Purchase, Sale or Redemption of the Company's Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries or consolidated affiliated entities had purchased, sold or redeemed any of the securities of the Company listed on the Stock Exchange.

### Pre-Emptive Rights

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

### Donations

During the Reporting Period, the Group made charitable donations of approximately RMB902,000.

### Tax Relief

The Company is not aware of any tax relief available to the Shareholders by reason of their holding of the Company's securities. If the Shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights (including entitlements to any relief of taxation) in relation to, the Shares, they are advised to consult an expert.

### Major Customers and Suppliers

For the Reporting Period, revenue generated from the five largest customers of the Group accounted for approximately 34.3% of the Group's total revenue, and the revenue generated from the largest customer accounted for approximately 9.0% of the Group's total revenue.

For the Reporting Period, purchase amounts from the five largest suppliers of the Group accounted for approximately 51.8% of the Group's total purchase, and the purchase amounts from the largest supplier accounted for approximately 18.1% of the Group's total purchase.

None of the Directors, their close associates or any Shareholders who to the knowledge of the Directors own more than 5% of the Company's issued share capital had an interest in the share capital of any of the Group's five largest customers and suppliers during the Reporting Period.

### Contracts with Controlling Shareholders

Save as disclosed in this annual report, no contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of its subsidiaries during the Reporting Period.

### Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

## Directors' Report

### Legal Proceedings and Compliance

During the Reporting Period, the Company had not been and was not a party to any material legal, arbitral or administrative proceedings against it that could, individually or in the aggregate, have a material adverse effect on its business, financial condition and results of operations.

During the Reporting Period, the Company had complied with the applicable laws and regulations in relation to its business in all material respects and was not involved in any non-compliance incidents which the Directors believe would, individually, or in aggregate, have a material adverse effect on its business as a whole.

### Corporate Governance

For details regarding the Company's corporate governance, please refer to the Corporate Governance Report on pages 26 to 43 of this annual report.

### Environmental Policies and Performance

For details regarding the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report published by the Company separately.

### WEIGHTED VOTING RIGHTS

The Company adopts a weighted voting rights structure. Under the structure, the Company's share capital comprises Class A Shares and Class B Shares. Each Class A Share entitles the holder to exercise 10 votes, and each Class B Share entitles the holder to exercise one vote, respectively, on any resolution tabled at general meetings, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote.

The WVR Structure enables the WVR Beneficiaries to exercise voting control over the Company notwithstanding the WVR Beneficiaries do not hold a majority economic interest its share capital. This enables the Company to benefit from the continuing vision and leadership of the WVR Beneficiaries, who will control the Company with a view to its long-term prospects and strategy.

As at December 31, 2023, the WVR Beneficiaries were Dr. Xu Li, Dr. Wang and Mr. Xu Bing. For the avoidance of doubt, upon the passing of Prof. Tang Xiao'ou, the weighted voting rights in the 6,906,080,602 Class A Shares then held by Prof. Tang through Amind has ceased and such Class A Shares are expected to be converted into Class B Shares on a one-to-one basis.

- (1) Dr. Xu Li beneficially owned 286,317,668 Class A Shares and 565,386,529 Class B Shares, representing approximately 8.79% of the voting rights in the Company on resolutions in general meetings of the Company (except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote). The Class A Shares beneficially owned by Dr. Xu Li were held by XWorld, a company wholly owned by Dr. Xu Li, and the Class B Shares were held through SenseTalent.
- (2) Dr. Wang Xiaogang beneficially owned 223,526,705 Class A Shares and 310,785,171 Class B Shares, representing approximately 6.53% of the voting rights in the Company on resolutions in general meetings of the Company (except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote). All the Class A Shares and 8,644,928 Class B Shares beneficially owned by Dr. Wang Xiaogang were held by Infinity Vision, a company wholly owned by Dr. Wang Xiaogang, and the remaining 302,140,243 Class B Shares were held through SenseTalent.
- (3) Mr. Xu Bing beneficially owned 104,190,097 Class A Shares and 252,236,581 Class B Shares, representing approximately 3.32% of the voting rights in the Company on resolutions in general meetings of the Company (except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote). The Class A Shares beneficially owned by Mr. Xu Bing were held by Vision Worldwide, a company wholly owned by Mr. Xu Bing, and the Class B Shares were held through SenseTalent.

As disclosed in the announcement of the Company dated December 18, 2023, upon the passing of Prof. Tang Xiao'ou, the weighted voting rights in the 6,906,080,602 Class A Shares then held by Prof. Tang Xiao'ou through Amind has ceased, and the 6,906,080,602 Class A Shares is expected to be converted into Class B Shares on a one-to-one basis. Following the conversion of the Class A Shares indirectly held by Prof. Tang Xiao'ou into Class B Shares, the total number of Class A Shares in issue will be 614,034,470 (representing approximately 15.75% of the voting rights in the Company on resolutions in general meetings of the Company, except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote) and the total number of Class B Shares in issue will be 32,854,890,530 (representing approximately 84.25% of the voting rights in the Company on resolutions in general meetings of the Company, except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote).

Class A Shares may be converted into Class B Shares on a one to one ratio. Upon the conversion of all the issued and outstanding Class A Shares as at December 31, 2023 into Class B Shares, the Company will issue 7,520,115,072 Class B Shares, representing approximately 28.98% of the total number of issued and outstanding Class B Shares as at December 31, 2023.

The weighted voting rights attached to the Class A Shares will cease when the WVR Beneficiaries do not have beneficial ownership of any Class A Shares, in accordance with Rule 8A.22 of the Listing Rules. This may occur:

- (1) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where all of the WVR Beneficiaries are: (1) deceased; (2) no longer members of our Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as directors; or (4) deemed by the Stock Exchange to no longer meet the requirements of directors set out in the Listing Rules;
- (2) when the holders of Class A Shares have transferred to other persons the beneficial ownership of, or economic interest in, all of the Class A Shares or the control over the voting rights attached to them, other than in the circumstances permitted by Rules 8A.18 of the Listing Rules;
- (3) where the vehicles holding Class A Shares on behalf of both WVR Beneficiaries no longer comply with Rule 8A.18(2) of the Listing Rules; or
- (4) when all of the Class A Shares have been converted to Class B Shares.

Shareholders and prospective investors are advised to be aware of the potential risks of investing in companies with weighted voting rights structures, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders' resolutions, irrespective of how other Shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration.

## SHARE INCENTIVE SCHEMES

The Company has adopted three share incentive schemes, including the Pre-IPO RSU Plan, the Pre-IPO ESOP and the 2022 RSU Scheme.

### Pre-IPO RSU Plan

The following is a summary of the principal terms of the Pre-IPO RSU Plan of the Company as approved by the Board on November 1, 2016 and amended from time to time. As the Pre-IPO RSU Plan involves grant of RSU Awards which are funded by existing Class B Shares of the Company, upon the revised Chapter 17 of the Listing Rules coming into effect in January 2023, the Pre-IPO RSU Plan constitutes a share scheme which is funded by existing shares of the Company under Chapter 17 of the Listing Rules.

## Directors' Report

### **Purpose**

The purpose of the Pre-IPO RSU Plan is to establish a comprehensive long-term incentive scheme of the Group, to motivate, attract and retain talents, and to share the Company's success with the participants.

### **Effectiveness and Duration**

Subject to any early termination as may be determined by the Board pursuant to terms of the Pre-IPO RSU Plan, the Pre-IPO RSU Plan shall be valid and effective for a period of ten years commencing on the adoption date of November 2, 2016.

### **Administration**

The Pre-IPO RSU Plan shall be subject to the administration of the Board and the management of the Company (the "RSU Administrators") in accordance with the terms and conditions of the Pre-IPO RSU Plan, and the decision of the Board will be final and binding on all parties. The RSU Administrators may, from time to time, select the participants to whom a restricted stock unit ("RSU Awards") may be granted.

The RSU Administrators have the right to, among others: (i) interpret and construe the provisions of the Pre-IPO RSU Plan; (ii) determine the persons who will be granted RSU Awards under the Pre-IPO RSU Plan, the terms and conditions on which RSU Awards are granted and when the RSUs granted pursuant to the Pre-IPO RSU Plan may be exercised; and (iii) make such other decisions or determinations as it shall deem necessary for the administration of the Pre-IPO RSU Plan.

### **Participants**

The eligible participants in the Pre-IPO RSU Plan (the "Pre-IPO RSU Participants") include (i) key management team and key technical staff of the Group who have been continuously working in the Group for no less than one year and key core employees who have direct impact on the Group's performance and development; and (ii) any other persons who, in the sole opinion of the RSU Administrators, have contributed or will contribute to the Group significantly.

### **Maximum number of Shares**

The maximum number of Shares underlying the Pre-IPO RSU Plan ("RSU Limit") is 492,327,394 Shares, all of which have been issued and held by SenseTalent. The RSU Limit represents approximately 1.47% of the total issued Shares as at the date of the annual report for the year ended December 31, 2022, December 31, 2023 and the date of this annual report respectively. There is no maximum limit of Class B Shares which may be awarded to any one Participant under the Pre-IPO RSU Plan.

### **Terms and Conditions of RSU Award**

#### ***Grant of RSU Awards***

The RSU Administrators may, from time to time, select the Pre-IPO RSU Participants to whom a grant of an RSU Award may be made. The amount of an RSU Award may be determined at the sole and absolute discretion of the RSU Administrators and may differ among selected Pre-IPO RSU Participants.

#### ***Acceptance of RSU Awards***

If the selected person intends to accept the offer of grant of RSU Awards as specified in the grant letter, he or she is required to sign the grant notice and return it to the Company within the time period pursuant to the terms of the Pre-IPO RSU Plan. No consideration is payable by the selected person upon the acceptance of a RSU Award. Upon the receipt from the selected person of a duly executed grant notice, the RSU Awards are granted to such person, who becomes a grantee pursuant to the Pre-IPO RSU Plan.

#### ***Conditions of RSU Awards***

Subject to the terms of the Pre-IPO RSU Plan, the RSU Awards may be granted on such terms and conditions as the RSU Administrators may determine, provided such terms and conditions shall be consistent with any other terms and conditions of the Pre-IPO RSU Plan.

**Rights attached to RSU Awards**

A Pre-IPO RSU Participant does not have any contingent interest in any Shares underlying an RSU Award unless and until such Shares are actually transferred to the Pre-IPO RSU Participant. Unless otherwise determined by the Board in its entire discretion, the Pre-IPO RSU Participants may not exercise voting rights in respect of the Shares underlying their RSU Awards. The Pre-IPO RSU Participants have the rights to any dividends or distributions from any Shares underlying an RSU Award.

**Exercise of RSU Awards**

RSU Awards held by the Pre-IPO RSU Participants were exercised on December 30, 2016. The exercise price per RSU Award was HKD0.00007789. Any RSUs or any Share underlying any RSUs shall not be transferred or sold prior to the Listing unless approved by the Board. After the Listing, subject to the lock-up period and restrictions set forth under the Pre-IPO RSU Plan and the sole discretion of the Board, the Pre-IPO RSU Participants may dispose of part or all of the Shares underlying their RSU Awards to any third party (other than anyone who, in the opinion of the RSU Administrators or the Board, are the Company's actual or potential competitors, hostile acquirers, or anyone who will adversely affect the Company's operations) at terms and conditions negotiated between the Pre-IPO RSU Participants and the transferees.

**Alteration and Termination of the Pre-IPO RSU Plan**

The terms of the Pre-IPO RSU Plan may be altered or amended in any respect by the Board provided that such alteration or amendment shall not affect any subsisting rights of any grantee thereunder. Also, the Pre-IPO RSU Plan may be terminated at any time prior to the expiry of its term by the Board.

**RSUs granted under the Pre-IPO RSU Plan**

Prior to the Reporting Period, the Pre-IPO RSU Plan has been fully granted up to its RSU Limit (i.e. 492,327,394 Shares) to a total of 59 grantees (including Directors, members of senior management and other connected persons of the Company). As disclosed above, all the RSUs granted were fully exercised by the Pre-IPO RSU Participants on December 30, 2016 and the underlying Shares were held by SenseTalent on behalf of such Pre-IPO RSU Participants since the date of such exercise.

Accordingly, during the Reporting Period, no granting, vesting, lapsing or cancellation of RSU has taken place. As at January 1, 2023, the aggregate number of the Class B Shares underlying the Pre-IPO RSU Plan and which remain held by SenseTalent on behalf of the Pre-IPO RSU Participants was 472,088,044 Class B Shares. As at December 31, 2023, the aggregate number of the Class B Shares underlying the Pre-IPO RSU Plan and which remain held by SenseTalent on behalf of the Pre-IPO RSU Participants were 427,566,689, representing approximately 1.28% of the issued share capital of the Company as at the date of the annual report for the year ended December 31, 2022, December 31, 2023, and the date of this annual report.

**Details of RSU Awards granted under the Pre-IPO RSU Plan**

As of January 1, 2023, the Pre-IPO RSU Plan have been fully granted, vested and exercised up to the RSU Limit. Therefore, no RSU Awards were granted, vested, exercised, lapsed or cancelled during the Reporting Period.

**Pre-IPO ESOP**

The following is a summary of the principal terms of the Pre-IPO ESOP of the Company as approved by the Board on November 1, 2016 and amended from time to time. Upon the revised Chapter 17 of the Listing Rules coming into effect in January 2023, the Pre-IPO ESOP constitutes a share scheme which is funded by existing shares of the Company under Chapter 17 of the Listing Rules. For details regarding the Pre-IPO ESOP, please refer to the section headed "Statutory and General Information – D. Share Incentive Schemes – 2. Pre-IPO ESOP" of the Prospectus.

**Purpose**

The purpose of the Pre-IPO ESOP is to establish a comprehensive long-term incentive scheme of the Group, to motivate, attract and retain talents, and to share the Company's success with the participants.

## Directors' Report

### **Effectiveness and Duration**

Subject to any early termination as may be determined by the Board pursuant to terms of the Pre-IPO ESOP, the Pre-IPO ESOP shall be valid and effective for a period of ten years commencing on the adoption date of November 2, 2016.

### **Administration**

The Pre-IPO ESOP shall be subject to the administration of the Board and the management of the Company (the "ESOP Administrators") in accordance with the terms and conditions of the Pre-IPO ESOP, and the decision of the Board will be final and binding on all parties. The ESOP Administrators may, from time to time, select the participants to whom an award in the form of options ("Options") may be granted.

The ESOP Administrators have the right to, among others: (i) interpret and construe the provisions of the Pre-IPO ESOP; (ii) determine the persons who will be granted Options under the Pre-IPO ESOP, the terms and conditions on which Options are granted and when the Options granted pursuant to the Pre-IPO ESOP may vest; and (iii) make such other decisions or determinations as it shall deem necessary for the administration of the Pre-IPO ESOP.

### **Participants**

The eligible participants in the Pre-IPO ESOP (the "Pre-IPO ESOP Participants"), as determined by the Board, include (i) key management team, key technical staff of the Group and key core employees who have direct impact on the Group's performance and development and who have been formally employed after probation and (ii) any other persons who have contributed significantly to the Group and have significant value to the Group. The scope of grantees, specific targets and the number of options to be granted will be determined by the ESOP Administrators with reference to the posts, performance and duration of service of each Pre-IPO ESOP Participant.

### **Maximum number of Shares**

Subject to any adjustments for other dilutive issuances, the maximum number of Shares underlying the Options under the Pre-IPO ESOP ("Pre-IPO ESOP Limit") is 3,376,931,209 Class B Shares, all of which have been issued and held by SenseTalent. The Pre-IPO ESOP Limit represents approximately 10.09% of the issued share capital as at the date of the annual report for the year ended December 31, 2022, December 31, 2023 and the date of this annual report respectively. There is no maximum limit of Class B Shares which may be awarded to any one Participant under the Pre-IPO ESOP Plan.

### **Terms and Conditions of Options**

#### ***Grant of Options***

The ESOP Administrators may determine in each year whether Options shall be granted and select the Pre-IPO ESOP Participants to whom a grant of an Option may be made. The number of Options granted may be determined at the sole and absolute discretion of the ESOP Administrators and may differ among selected Pre-IPO ESOP Participants. No consideration is payable by the Pre-IPO ESOP Participants upon the acceptance of an Option.

#### ***Rights attached to the Options and the underlying Shares***

A Pre-IPO ESOP Participant only has a contingent interest in the Shares underlying an Option unless and until such Shares are actually transferred to the Pre-IPO ESOP Participant. He/she is not entitled to any right of dividend or other shareholder's interest or right in respect of any Options or the underlying Shares before exercise of the Options and the completion of the registration of the Pre-IPO ESOP Participant as a Shareholder of the Company. No voting right shall be exercisable by the Pre-IPO ESOP Participants in relation to any Options or the Shares that are the subject of the Options.

**Limits on Transfer of Options**

Unless otherwise provided in the Pre-IPO ESOP or by applicable law, all Options under the Pre-IPO ESOP are non-transferable and shall not be subject, in any manner, to sale, transfer, exchange, pledge, encumbrance, debt repayment or other disposal prior to the time of exercise.

**Vesting Schedule**

Except for employees who joined the Company on or before December 31, 2015 or otherwise determined by the Administrator, the Pre-IPO ESOP Participants shall not exercise any Option granted to him/her for a period of one year (the "Waiting Period") after the date of grant of the Options ("Grant Date").

Subject to the satisfaction of the specific conditions before any Option may be vested, the Options granted will vest in four years, subject to a maximum of 25% each year. The first vesting date will be on the date when the Waiting Period ends.

**Exercise of Options****Exercise Price**

The exercise price per Option shall be determined by the ESOP Administrators or any persons authorized by the ESOP Administrators on the Grant Date with reference to the fair market value of the Shares and the market condition, the determination of which shall be final, binding and conclusive.

**Validity Period**

Unless otherwise provided in the Pre-IPO ESOP, the validity period for the Options granted to the Pre-IPO ESOP Participants shall be seven years commencing from the Grant Date (the "Validity Period"). Any Options vested but not exercised within the Validity Period shall become non-exercisable and the underlying Shares shall be returned to the Pre-IPO ESOP.

**Exercise Method**

The Pre-IPO ESOP Participants may exercise his/her Options by serving the exercise notice during the exercise period as determined by the ESOP Administrators and paying the relevant exercise price and the Options shall only be exercised by the Participants.

**Alteration and Termination of the Pre-IPO ESOP**

The terms of the Pre-IPO ESOP may be altered or amended in any respect by the Board provided that such alteration or amendment shall not affect any subsisting rights of any grantee thereunder.

The Pre-IPO ESOP may also be terminated at any time prior to the expiry of its term by our Board provided that such termination shall not affect any subsisting rights of any grantee thereunder. In such event, no further Options shall be granted.

**Options granted under the Pre-IPO ESOP**

As at December 31, 2023, 2,834,708,640 Options under the Pre-IPO ESOP (including those which (i) remain unvested; (ii) are vested and exercisable but unexercised; and (iii) have been fully vested and exercised but remained held by SenseTalent on behalf of the relevant grantees) have been granted to 1,999 grantees (including Directors, members of senior management and other connected persons of the Company).

As at January 1, 2023, the aggregate number of the Class B Shares underlying the Pre-IPO ESOP and which remain held by SenseTalent was 3,253,888,486 Class B Shares. As at December 31, 2023, the aggregate number of Class B Shares underlying the Pre-IPO ESOP and which remain held by SenseTalent is 3,085,537,752, representing approximately 9.22% of the issued share capital of the Company as at the date of the annual report for the year ended December 31, 2022, December 31, 2023 and the date of the annual report.

## Directors' Report

**Details of share options granted under the Pre-IPO ESOP**

Details of outstanding options over new shares of the Company at the beginning and at the end of the Reporting Period which have been granted under the Pre-IPO ESOP are as follows:

Grantees	Outstanding at January 1, 2023	Number of share options granted	Number of share options exercised	Number of share options lapsed	Number of share options cancelled	Outstanding at December 31, 2023
<b>Category 1: Five highest paid individuals during the financial year ended December 31, 2023</b>						
Five highest paid individuals during the financial year ended December 31, 2023 <sup>(1)</sup>						
	93,196,163	5,993,968	(28,348,407)	0	0	70,841,724
<b>Category 2: Other Grantees</b>						
Total of all other grantees under the Pre-IPO ESOP Plan <sup>(2)</sup>						
	910,855,633	178,021,097	(260,144,884)	0	(105,797,225)	722,934,621
	73,301,419 <sup>(3)</sup>	0	(65,344,628)	0	0	7,956,791
	159,501,821 <sup>(4)</sup>	0	(90,881,699)	0	(3,752,162)	64,867,960
	678,052,393 <sup>(5)</sup>	178,021,097	(103,918,557)	0	(102,045,063)	650,109,870
<b>Total all categories</b>	<b>1,004,051,796</b>	<b>184,015,065</b>	<b>(288,493,291)</b>	<b>0</b>	<b>(105,797,225)</b>	<b>793,776,345</b>

Notes:

- (1) As at January 1, 2023, the number of outstanding Options is 93,196,163. Such Options were granted from January 1, 2020 to September 13, 2022 with a vesting period of 3.5 to 4 years, exercise period of 7 years and exercise price of approximately HK\$0.78 or HK\$0.22.

During the Reporting Period, a total of 5,993,968 Options were granted on January 1, 2023 and April 1, 2023 with a vesting period of 4 to 4.25 years, exercise period of 7 years and exercise price of approximately HK\$0.78. The vesting of these Options are subject to fulfilment of specific conditions (including performance targets). The closing price of the Class B Shares on the Stock Exchange immediately before the date on which the grant (being January 1, 2023 and April 1, 2023) was made was HK\$2.22 and HK\$2.66 respectively. For the fair value of the Options granted during the Reporting Period and the accounting standard and policy adopted, please refer to Notes 31 to the consolidated financial statements.

The Options which were exercised during the Reporting Period have an exercise price of approximately HK\$0.78 or HK\$0.22. The weighted average closing price of the Class B Shares on the Stock Exchange immediately before the dates on which the Options were exercised was HK\$3.14.

- (2) As at January 1, 2023, the number of outstanding Options is 910,855,633. Such Options were granted from November 2, 2016 to September 13, 2022 with a vesting period of 0 to 4 years, exercise period of 7 years and exercise price of approximately HK\$0.78 or HK\$0.22 or HK\$0.0001.

During the Reporting Period, a total of 178,021,097 Options were granted on January 1, 2023, April 1, 2023 and July 1, 2023 with a vesting period of 4 to 4.25 years, exercise period of 7 years and exercise price of approximately HK\$0.78. The vesting of these Options are subject to fulfillment of specific conditions (including performance targets). The closing price of the Class B Shares on the Stock Exchange immediately before the date on which the grant (being January 1, 2023, April 1, 2023 and July 1, 2023) was made was HK\$2.22, HK\$2.66 and HK\$2.07 respectively. For the fair value of the Options granted during the Reporting Period and the accounting standard and policy adopted, please refer to Notes 31 to the consolidated financial statements.

The Options which were exercised during the Reporting Period have an exercise price of approximately HK\$0.78, HK\$0.22 or HK\$0.0001. The weighted average closing price of the Class B Shares on the Stock Exchange immediately before the date of exercise was HK\$2.30.

The Options which were cancelled during the Reporting Period had an exercise price of approximately HK\$0.78 or HK\$0.22 as set out above.

- (3) Options granted to the other grantees with an exercise price of approximately HK\$0.0001.
- (4) Options granted to the other grantees with an exercise price of approximately HK\$0.22.
- (5) Options granted to the other grantees with an exercise price of approximately HK\$0.78.
- (6) During the Reporting Period, the Directors hold no outstanding Options under the Pre-IPO ESOP. In addition, during the Reporting Period, no Options were granted to, vested on or exercised by any Director and there were no lapsing or cancellation of Options with respect to any Director. As at December 31, 2023, SenseTalent holds 565,386,529 Class B Shares on behalf of Dr. Xu Li, 302,140,243 Class B Shares on behalf of Dr. Wang Xiaogang, and 252,236,581 Class B Shares on behalf of Mr. Xu Bing. Such Class B Shares held by SenseTalent on behalf of Dr Xu Li, Dr. Wang Xiaogang and Mr. Xu Bing represents Class B Shares which were issued to them upon the full exercise of Options granted to them under the Pre-IPO ESOP prior to the Reporting Period.

## 2022 RSU Scheme

The following is a summary of the key terms of the 2022 RSU Scheme as approved by the Board on June 20, 2022. Upon the revised Chapter 17 coming into effective in January 2023, the 2022 RSU Scheme constitute a share scheme under Chapter 17 of the Listing Rules. The Company proposes to amend the terms of the 2022 RSU Scheme to bring them in line with the requirements under Chapter 17 of the Listing Rules in the upcoming annual general meeting and further details of such proposed amendments will be published by the Company in compliance with the Listing Rules in due course. For details regarding the 2022 RSU Scheme, please refer to the announcement of the Company dated June 20, 2022.

### Purpose

The purpose of the 2022 RSU Scheme is to recognise the contributions of the participants, encourage and retain the participants for the continual operation and development of the Group, and to motivate the participants to maximize the value of the Company for the benefits of both such participants and the Company.

### Effectiveness and Duration

Subject to any early termination as may be determined by the Board pursuant to terms of the 2022 RSU Scheme, the 2022 RSU Scheme shall be valid and effective for a period of ten years commencing on the adoption date of June 20, 2022.

### Administration

The 2022 RSU Scheme shall be subject to the administration of the Board in accordance with the terms and conditions therein, and a trustee may be appointed to assist with the administration and vesting of RSUs granted pursuant to the 2022 RSU Scheme. The trustee will not exercise any voting rights in respect of any Class B Shares held under the trust or as nominee.

## Directors' Report

An administrative committee comprising the chairman of the Board (the "Chairman"), one senior officer of the human resources department and one senior officer of finance department, as appointed by the Chairman, from time to time, may (i) exercise the mandate granted by the Shareholders at general meetings of the Company and direct the Company to allot and issue Class B Shares to the trustee to be held by the trustee to satisfy the RSUs upon vesting; and/or (ii) direct and procure the trustee to receive existing Class B Shares from any Shareholder or purchase existing Class B Shares (either on-market or off-market) to satisfy the RSUs upon vesting.

### Participants

The eligible participants in the 2022 RSU Scheme (the "2022 RSU Scheme Participants") include (i) any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group; and (ii) any consultant, adviser or agent of any member of the Group who, in the sole opinion of the Board and/or the Chairman has contributed or will contribute to the growth and development of the Group.

### Maximum Number of Shares

The total number of Class B Shares underlying the 2022 RSU Scheme shall not in aggregate exceed 1,675,370,000 Class B Shares, representing approximately 5% of the total number of the issued share capital of the Company as at the adoption date of June 20, 2022, approximately 5.01% of the total number of issued share capital of the Company as at the date of the annual report for the year ended December 31, 2022, as at December 31, 2023 and as at the date of this annual report respectively. Without prejudice to the foregoing, the total number of Class B Shares underlying the RSUs to be granted under the 2022 RSU Scheme in any financial year will not exceed 3% of the issued Shares as at the beginning of that financial year.

Any Class B Share covered by a 2022 RSU Scheme Award (or any portion of an Award) which is forfeited, canceled or expires (whether voluntarily or involuntarily) shall be deemed not to have been issued for purposes of determining the scheme limit. Class B Shares that actually have been issued under the 2022 RSU Scheme pursuant to a 2022 RSU Scheme Award shall not be returned to the 2022 RSU Scheme and shall not become available for future issuance under the 2022 RSU Scheme, except (i) otherwise permitted by the 2022 RSU Scheme; and (ii) that if any unvested 2022 RSU Scheme Award (or any portion thereof) are repurchased by the Company, any Class B Shares underlying such unvested 2022 RSU Scheme Award (or any portion thereof) shall become available for future grant under the 2022 RSU Scheme.

The Class B Shares underlying the 2022 RSU Scheme may be issued by the Company pursuant to authorization granted by the Shareholders by way of general or specific mandate(s), and the general or specific mandate(s) may be refreshed from time to time in accordance with the Listing Rules. As at the Latest Practicable Date, no Class B Shares have been issued for the purposes of the 2022 RSU Scheme.

The maximum number of Class B Shares which may be awarded to any one Participant under the 2022 RSU Scheme may not exceed 1% of the issued Shares as at the adoption date of June 20, 2022.

## Terms and Conditions of the 2022 RSU Scheme Awards

### Grant of 2022 RSU Scheme Awards

Subject to the terms of the 2022 RSU Scheme, the Board (in the case of grantees who are Directors (the "Senior Grantees")) or the Chairman (in the case of grantees other than Senior Grantees, the "Junior Grantees", and together with the Senior Grantees, the "Grantees") shall be entitled at any time during the term of the 2022 RSU Scheme to make a grant of awards (the "2022 RSU Scheme Awards") to any 2022 RSU Scheme Participant, as the Board or the Chairman (as the case may be) may in its absolute discretion determine. The amount of a 2022 RSU Scheme Award may be determined at the sole and absolute discretion of the Board (in the case of Senior Grantees) or the Chairman (in the case of Junior Grantees) and may differ among selected 2022 RSU Scheme Participants. No consideration is payable by the selected person upon the grant of a 2022 RSU Scheme Award.

### Conditions of the 2022 RSU Scheme Awards

2022 RSU Scheme Awards may be granted on such terms and conditions (such as by linking the vesting of the RSU to the attainment or performance of milestones or targets by any member of the Group, the Grantee or any group of Grantees) as the Board (in the case of Senior Grantees) or the Chairman (in the case of Junior Grantees) may determine, provided such terms and conditions shall be consistent with any other terms and conditions of the 2022 RSU Scheme and shall be set out in the notice of grant.

For as long as the Class B Shares are listed on the Stock Exchange, if required by the Stock Exchange or the Listing Rules, the grant of a 2022 RSU Scheme Award shall be subject to the compliance with the requisite requirements under the Listing Rules or otherwise required by the Stock Exchange.

### Vesting of the 2022 RSU Scheme Awards

Subject to the terms of the 2022 RSU Scheme and the specific terms and conditions applicable to each Award, the vesting period shall be determined by the Board or the Chairman (as the case may be).

The 2022 RSU Scheme Awards which have vested shall be satisfied at the sole and absolute discretion of the Board or the Chairman (as the case may be) within a reasonable period from the vesting date of such 2022 RSU Scheme Awards, either by: (a) the Administrative Committee directing and procuring the relevant trustee to transfer the Class B Shares underlying the 2022 RSU Scheme Awards to the Grantee in such manner as determined by it from time to time; and/or (b) the Administrative Committee directing and procuring the trustee to pay to the Grantee in cash an amount which is equivalent to the market value of the Class B Shares.

In the event a general offer for Shares (whether by way of voluntary offer, takeover, scheme of arrangement or otherwise) is made to all holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror), the Board may, prior to or immediately upon the offer becoming or being declared unconditional, determine at its absolute discretion whether any 2022 RSU Scheme Awards shall vest. If the Board determines that such 2022 RSU Scheme Awards shall vest, it shall notify the Grantee and the Company that the RSU shall vest and the period within which such 2022 RSU Scheme Awards shall vest. In the absence of such determination by the Board, the 2022 RSU Scheme Awards shall continue to vest in accordance with their respective vesting timetable.

## Directors' Report

### Lapsing of the 2022 RSU Scheme Awards

The unvested RSUs shall automatically lapse upon the earliest of: (a) the date on which the Grantee ceases to be an eligible participant; (b) an order for the winding up of the Company is made or a resolution is passed for the voluntary winding-up of the Company; (c) the date on which the Grantee commits a breach of restrictions in respect of the transferability of the 2022 RSU Scheme Awards; (d) the date on which the Grantee is found to be an excluded person for the purposes of the 2022 RSU Scheme; (e) the date on which it is no longer possible to satisfy any outstanding conditions to vesting; or (f) the Board has decided that the unvested RSUs shall not be vested for the Grantee in accordance with the rules of the 2022 RSU Scheme and the terms and conditions as set out in the notice of grant.

### Rights attached to the 2022 RSU Scheme Awards

The RSUs do not carry any right to vote at general meetings of the Company. No Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of a 2022 RSU Scheme Award pursuant to the 2022 RSU Scheme, unless and until such Class B Shares underlying the RSUs are actually transferred to the Grantee upon the vesting of the RSUs. Unless otherwise specified by the Board in its sole and absolute discretion in the notice of grant, the Grantees do not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Class B Shares underlying a 2022 RSU Scheme Award or RSU.

### Alteration and Termination of the 2022 RSU Scheme

The terms of the 2022 RSU Scheme may be altered, amended or waived in any respect by the Board provided that such alteration, amendment or waiver shall not affect any subsisting rights of any Grantee thereunder. The 2022 RSU Scheme may be terminated at any time prior to the expiry of its term by the Board provided that such termination shall not affect any subsisting rights of any Grantee.

### RSUs granted under the 2022 RSU Scheme

As at December 31, 2023, no grant has been made to the 2022 RSU Scheme Participants under the 2022 RSU Scheme, and no Class B Shares had been issued for the purposes of the 2022 RSU Scheme.

### Percentage of weighted average number of shares

The total number of Class B Shares that may be issued in respect of options or awards granted under the Pre-IPO RSU Plan, the Pre-IPO ESOP and the 2022 RSU Scheme of the Company (being the 1,675,370,000 Class B Shares which may be issued under the 2022 RSU Scheme, as each of the Pre-IPO RSU Plan and the Pre-IPO ESOP does not involve issue of new Shares) during the year ended December 31, 2023 divided by the weighted average number of total Shares in issue for the year ended December 31, 2023 is 5.01%.

### Equity-Linked Agreements

Save as disclosed in the section headed "Share Incentives Scheme" above, no equity-linked agreements that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the Reporting Period or subsisted as at the Latest Practicable Date.

## DIRECTORS AND SENIOR MANAGEMENT

The Directors as at the Latest Practicable Date are:

### Executive Directors

Dr. XU Li (徐立) (*Executive Chairman of the Board*)

Dr. WANG Xiaogang (王曉剛)

Mr. XU Bing (徐冰)

### Non-executive Director

Ms. FAN Yuanyuan (范瑗瑗)

### Independent non-executive Directors

Prof. XUE Lan (薛瀾)

Mr. LYN Frank Yee Chon (林怡仲)

Mr. LI Wei (厲偉)

As disclosed in the announcement of the Company dated December 17, 2023, Prof. Tang Xiao'ou (then an executive director) passed away on December 15, 2023.

### Confirmation of Independence of Independent Non-Executive Director

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

### Biographical Details of Directors

#### Executive Directors

**Dr. Xu Li (徐立)**, aged 42, is our co-founder, executive Chairman of our Board, executive Director and chief executive officer. He was appointed as a Director on December 15, 2015 and re-designated as an executive Director on August 23, 2021. He is primarily responsible for our Group's vision strategy, business development and daily operations. He has been an adjunct professor at Shanghai Jiao Tong University since December 2018.

Prior to joining our Group, Dr. Xu Li was a research scientist at Lenovo Group Ltd. from August 2013 to March 2015, and a postdoctoral fellow at the Chinese University of Hong Kong from October 2010 to July 2013.

Dr. Xu Li obtained his bachelor's degree in computer science and engineering in July 2004 and his master's degree in computer engineering in March 2007 from Shanghai Jiao Tong University (上海交通大學), and his Ph.D. degree in computer science and engineering in December 2010 from the Chinese University of Hong Kong, where he focused on research on computer vision and computational imaging.

Dr. Xu Li was ranked top ten in Fortune's Global List of 40 Under 40 in 2018, an annual ranking published by Fortune featuring the most influential young people in business sector. He was also listed on Fortune China's 40 Under 40, a list featuring 40 young business elites in China, for five consecutive years from 2017 to 2021. He was named as the Technology Category Winner of Ernst & Young Entrepreneur of The Year China 2018 and the Hong Kong InnoStars Award (香港創新領軍人物大獎) by Our Hong Kong Foundation (團結香港基金) in 2019.

**Dr. Wang Xiaogang (王曉剛)**, aged 46, is our co-founder, executive Director and chief scientist. He was appointed as a Director on October 10, 2016 and re-designated as an executive Director on August 23, 2021. He is primarily responsible for overseeing and supervising our Group's research team. He joined the Department of Electronic Engineering at the Chinese University of Hong Kong as an assistant professor in August 2009 and has been a professor since August 2020. He has been the Chairman of China Augmented Reality Core Technology Industry Alliance (中國增強現實核心技術產業聯盟) since June 2019.

Dr. Wang Xiaogang has published numerous papers at major conferences and journals and his publications have received over 96,000 citations according to Google Scholar, with H-Index of 140. He was awarded the honorable mention of PAMI Young Researcher Award by the IEEE Computer Society in 2016, and the Hong Kong RGC Early Career Award in 2012. He was the area chair of various international conferences between 2011 and 2017, including the CVPR, ICCV and ECCV.

Dr. Wang Xiaogang obtained his bachelor's degree in electronic engineering and information science from the Special Class of Gifted Young at the University of Science and Technology of China in July 2001. He further obtained an MPhil degree from the Chinese University of Hong Kong in December 2003, and a Ph.D. degree in computer science from the Massachusetts Institute of Technology in June 2009.

## Directors' Report

**Mr. Xu Bing (徐冰)**, aged 34, is our co-founder, executive Director and Board secretary. He was appointed as a Director on December 15, 2015 and re-designated as an executive Director on August 23, 2021. He is primarily responsible for our Group's corporate development strategies and overseeing fundraising and strategic investments.

Prior to founding our Group, Mr. Xu Bing was a Ph.D. candidate at the Multimedia Lab of the Chinese University of Hong Kong since August 2012, focusing on research on deep learning and computer vision. He obtained his dual bachelor's degrees in information engineering and mathematics from the Chinese University of Hong Kong in November 2012. Mr. Xu Bing was named Innovators Under 35 by MIT Technology Review in 2017 and listed on Forbes Asia's 30 Under 30 in 2019.

**Non-executive Director**

**Ms. Fan Yuanyuan (范媛媛)**, aged 49, was appointed as a Director on January 25, 2017 and re-designated as a non-executive Director on August 23, 2021. She is primarily responsible for providing advice to the overall development of our Group.

Ms. Fan has years of experience in private equity investments, management consulting and financial services. She has been a Board Director of UniLink Capital since February 2024. She worked with Sailing Capital from January 2013 to November 2023, had been a partner and managing director from January 2016 to February 2023, and had been a deputy CEO of Sailing Capital (Hong Kong) from March 2023 to November 2023, responsible for cross-border private equity investments. She was a director of Jianpu Technology Inc., a company listed on the New York Stock Exchange (stock code: JT) from October 2017 to May 2019. She served as an adjunct professor at the college of business of the Shanghai University of Finance and Economics (上海財經大學) from December 2017 to December 2019. She had previously worked at Pacific Asset Management from July 2010 to December 2012 and McKinsey & Company from October 2008 to June 2010.

Ms. Fan obtained a bachelor's degree and a master's degree in economics from the Shanghai University of Finance and Economics in July 1996 and January 1999, respectively. She further received an MBA degree from Cornell University in May 2003 and an EMBA degree from Tsinghua University in July 2015.

**Independent non-executive Directors**

**Prof. Xue Lan (薛瀾)**, aged 64, was appointed as our independent non-executive Director on December 7, 2021. He is primarily responsible for offering independent advice to our Board on the operations and management of our Group.

Prof. Xue has been a professor at Tsinghua University since September 1998 and the Dean of Schwarzman College since September 2018. He was the Dean of the School of Public Policy and Management at the same university from October 2008 to November 2018. He has also been an independent non-executive director of Neusoft Corporation (東軟集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600718) since May 2020 and an independent non-executive director of Lenovo Group Limited (聯想集團有限公司), a company listed on the Stock Exchange (stock code: 992) since June 2022, where he acquired corporate governance experience. His corporate governance experience includes, among others, (i) regularly attending board meetings and providing independent opinions to Neusoft Corporation and Lenovo Group Corporation on certain corporate governance matters to ensure that it is operated and managed for the benefit of all of its shareholders and in compliance with the relevant laws and regulations; (ii) reviewing and opining on related party transactions and connected transactions (as the case may be); (iii) monitoring the appointment and remuneration of directors and senior management; and (iv) reviewing and understanding the implementation of internal control measures of Neusoft Corporation and Lenovo Group Corporation.

Prof. Xue has been serving as the vice chairman of the board of Chinese Association of Science of Science and S&T Policy (CASSSP) (中國科學學與科技政策研究會) since October 2015, a member and chair of the National Expert Committee on New Generation of Artificial Intelligence Governance (國家新一代人工智能治理專業委員會) since March 2019, a member of the Standing Committee of the China Association for Science and Technology since May 2021, a member of the United Nations Committee of Experts on Public Administration (CEPA) since August 2021 and a member of the United Nations Internet Governance Forum (IGF) Leadership Panel since August 2022. Prof. Xue was awarded the Fudan Distinguished Contribution Award for Management Science in November 2011, the Outstanding Contribution Award by the CASSSP in October 2018 and the National Award for Excellence in Innovation (全國創新爭先獎章) in May 2020. He was also recognized as a Changjiang Scholar by the Ministry of Education of the PRC in 2008.

Prof. Xue obtained his bachelor's degree in optics and fine mechanics from the Changchun Institute of Optics and Fine Mechanics (長春光學精密機械學院) (currently known as Changchun University of Science and Technology (長春理工大學)) in January 1982. He obtained a Master of Science degree from the State University of New York at Stony Brook in December 1987. He further received a Master of Science degree and a Ph.D. degree in engineering and public policy from Carnegie-Mellon University in May 1989 and December 1991, respectively.

**Mr. Lyn Frank Yee Chon (林怡仲)**, aged 65, was appointed as our independent non-executive Director on December 7, 2021. He is primarily responsible for offering independent advice to our Board on the operations and management of our Group.

Mr. Lyn has been an independent non-executive director and the chairman of the audit committee of Standard Chartered Bank (China) Ltd. since October 2020 and November 2020, respectively. He served the same positions at Mox Bank Limited since July 2020. He was previously a partner at PricewaterhouseCoopers (PwC) from 1993 to 2019 and has held multiple senior positions at PwC China & Hong Kong, including markets leader, member of management board, corporate finance leader and Hong Kong senior partner. Mr. Lyn acquired corporate governance experience through his positions as an independent non-executive director of Standard Chartered Bank (China) Ltd. and Mox Bank Limited. His corporate governance experience includes, among others, (i) attending all board meetings covering various key matters including corporate governance, internal controls, risk management, regulatory compliance, financial reporting and strategy; (ii) facilitating effective communication between the board of directors and management; and (iii) understanding the relevant regulatory requirements and directors' duty to act in the best interests of the company and the shareholders as a whole. These were also some of the key corporate experience accumulated by Mr. Lyn during his service at PwC for over 30 years.

Mr. Lyn served at The Community Chest (香港公益金) as a director from June 2015 to June 2021 and as a treasurer during the financial years between 2015/2016 to 2019/2020. He was a member of the Chinese People's Political Consultative Committee of the Guangxi Zhuang Autonomous Region (中國人民政治協商會議廣西壯族自治區委員會) from 2000 to 2018. Mr. Lyn obtained a Bachelor of Arts degree in accounting and finance from Nottingham Trent University (Trent Polytechnic) in July 1983. He has been a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) since October 1989 and the Institute of Chartered Accountants in England and Wales (ICAEW) since July 1988.

## Directors' Report

**Mr. Li Wei (厲偉)**, aged 60, was appointed as our independent non-executive Director on December 7, 2021. He is primarily responsible for offering independent advice to our Board on the operations and management of our Group.

Mr. Li is the chairman of the board of Songhe Venture Capital Co., Ltd. (松禾創業投資有限公司) and the founding partner of Green Pine Capital Partners, a venture capital firm specializing on strategic emerging industries including artificial intelligence. He gained corporate governance experience through serving as directors of various investee companies of Green Pine Capital Partners. His corporate governance experience includes, among others, (i) communication with the board of directors and shareholders; and (ii) understanding the duty of directors to act in the best interests of the investee companies and the shareholders as a whole.

Mr. Li was listed by Forbes China as one of China's top 100 venture capitalists for three consecutive years from 2018 to 2020. He was also listed on Fortune China's list of 30 most influential Chinese investors in 2020. Mr. Li obtained a bachelor's degree in chemistry from Peking University in July 1985. He further obtained a master's degree in economics and an EMBA degree from the same university in January 1991 and January 2005, respectively.

### Changes in Information of the Directors

Subsequent to the date of the annual report of the Company for the year ended December 31, 2022, the Company was notified that Ms. Fan Yuanyuan (i) ceased to be the deputy chief executive officer of Sailing Capital (Hong Kong) in November 2023 and (ii) was appointed as the Board Director of UniLink Capital since February 2024.

Save as disclosed above, during the Reporting Period, there is no other change in the Directors' information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### Biographical Details of Senior Management

**Dr. Xu Li (徐立)** is our co-founder, executive Chairman of our Board, executive Director and chief executive officer. Please refer to the section headed "Biographical Details of Directors" for further details.

**Dr. Wang Xiaogang (王曉剛)** is our co-founder, executive Director and chief scientist. Please refer to the section headed "Biographical Details of Directors" for further details.

**Mr. Xu Bing (徐冰)** is our co-founder, executive Director and Board secretary. Please refer to the section headed "Biographical Details of Directors" for further details.

**Mr. Wang Zheng (王征)**, aged 47, has been our chief financial officer since May 2019. He is primarily responsible for overall financial planning and management of our Group.

Prior to joining our Group, Mr. Wang worked at Silver Lake from May 2008 to December 2018, with his last position as managing director and head of Greater China, primarily responsible for sourcing and executing private equity investments in the technology and technology-enabled industries. He worked at General Atlantic from May 2005 to April 2008, with his last position as vice president focusing on technology, media and telecom (TMT) and healthcare related private equity investments in North Asia. During his tenure with Silver Lake and General Atlantic, Mr. Wang had served as board director or board observer at

several investee companies. Earlier in his career, Mr. Wang was a senior business analyst at corporate finance practice at McKinsey & Company from October 2003 to May 2005. He served as financial analyst at Morgan Stanley from November 2002 to August 2003 and at Credit Suisse First Boston from July 2001 to October 2002.

Mr. Wang obtained a bachelor's degree, *summa cum laude*, in computer science and economics from Yale College in May 2001.

**Mr. Yang Fan (楊帆)**, aged 41, is our co-founder and has been our vice president since November 2014. He is one of the Group's senior management and is primarily responsible for strategic planning and corporate development of the Group; in particular, he is principally responsible for the Group's AI infrastructure (i.e. SenseCore).

Mr. Yang has been serving as an industry expert at the Shenzhen Stock Exchange from June 2020 and the vice president of the Strategic Cooperation and Development Committee of the Institute for AI International Governance of Tsinghua University from April 2021. Prior to joining our Group, Mr. Yang was the research software development engineer at Microsoft (China) Co., Ltd. from July 2006 to November 2014.

Mr. Yang obtained his bachelor's and master's degree in electronic engineering from Tsinghua University in July 2003 and July 2006, respectively.

## Directors' Service Contracts and Appointment Letters

### Executive Directors

Each of the executive Directors has entered into a service contract with the Company. Pursuant to the agreement, they agreed to act as executive Directors for an initial term of three years with effect from the date the appointment is approved by the Board or until the third annual general meeting of the Company after the Listing Date (whichever is earlier). Either party has the right to give not less than three months' written notice to terminate the agreement.

Details of the Company's remuneration policy is described in section headed "Remuneration Policy" in the Corporate Governance Report.

### Non-executive Director

The non-executive Director has entered into an appointment letter with the Company. Her appointment as a Director shall continue for three years after or until the third annual general meeting of the Company after the Listing Date, whichever is earlier, (subject to retirement as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under the appointment letter, the non-executive Director is not entitled to receive annual salaries in her capacity as non-executive Director for the year ended December 31, 2023. The Company intends to enter into renewed appointment letter with the non-executive Director such that the non-executive Director will be entitled to annual fees in her capacity as non-executive Director, the details of which will be further disclosed in accordance with the Listing Rules.

### Independent Non-executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The initial term of their appointment shall be three years from the date of their appointment or until the third annual general meeting of the Company after the Listing Date, whichever is earlier, (subject to retirement as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

Save as disclosed above, none of the Directors (including such Directors who will be proposed for re-election at the annual general meeting of the Company for the year ended December 31, 2023) has or will have a service contract with any member of the Group, other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

## Directors' Report

Details of the emoluments of the Directors during the year ended December 31, 2023 are set out in Note 39 to the consolidated financial statements in this annual report.

### **Directors' Interests in Transactions, Arrangements or Contracts of Significance**

Save as disclosed in this annual report, none of the Directors or an entity connected with a Director were materially interested, either directly or indirectly, in any transaction, arrangement or contract subsisting during or at the end of the Reporting Period which was significant in relation to the business of the Group taken as a whole.

### **Directors' Rights to Acquire Shares or Debentures**

Save as disclosed in this annual report, neither the Company nor its subsidiaries were a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right at any time during the Reporting Period.

### **Directors' Interests in Competing Business**

As at December 31, 2023, Dr. Wang Xiaogang held 14.45% of equity interests in Chengdu Xinzhouruishi Technology Co., Ltd (成都新舟銳視科技有限公司) ("Chengdu Xinzhouruishi"), a company established in the PRC with intelligent visual processing technology specializing in research and development, production and sales of intelligent security products. Beijing SenseTime Technology Development Co., Ltd. (北京市商湯科技開發有限公司), an indirect wholly-owned subsidiary of the Company, has also invested in Chengdu Xinzhouruishi and holds 13.50% of its equity interests.

Save as disclosed in this annual report, during the year ended December 31, 2023, none of the Directors had any interest in any business which competes, or is likely to compete, directly or indirectly, with the Company's business, and requires disclosure under Rule 8.10(2) of the Listing Rules.

### **Permitted Indemnity Provision**

Pursuant to Article 208 of the Articles of Association and subject to the applicable laws and regulations, every Director shall, in the absence of actual fraud or wilful default or as otherwise required by law, be indemnified by the Company against all costs, losses, damages and expenses which he may incur or become liable in respect of by reason of any contract entered into, or act or thing done by him as Director or in any way in or about the execution of his duties.

Such permitted indemnity provision has been in force since the Listing Date. The Company has taken out and maintained appropriate insurance coverage for the Directors.

## Directors' Interests and Short Positions in Shares, Underlying shares and Debentures of the Company or any Associated Corporations

As at December 31, 2023, the interests or short positions of the Directors and the chief executive in any Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which have been taken or deemed to have been taken under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

### Interests in Shares of the Company

Name	Nature of interest <sup>(1)</sup>	Number and class of shares held	Approximate percentage of shareholding of each class of shares in our Company <sup>(2)</sup>	Approximate percentage of shareholding in the issued and outstanding share capital of our Company <sup>(2)</sup>
<b>Class A Shares – Amind</b>				
Amind <sup>(3)</sup>	Beneficial interest	6,906,080,602 Class A Shares	91.83%	20.63%
<b>Class A Shares – Dr. Xu Li</b>				
XWorld <sup>(4)</sup>	Beneficial interest	286,317,668 Class A Shares	3.81%	0.86%
Dr. Xu Li	Interest in a controlled corporation	286,317,668 Class A Shares	3.81%	0.86%
<b>Class A Shares – Dr. Wang Xiaogang</b>				
Infinity Vision <sup>(5)</sup>	Beneficial interest	223,526,705 Class A Shares	2.97%	0.67%
Dr. Wang Xiaogang	Interest in a controlled corporation	223,526,705 Class A Shares	2.97%	0.67%
<b>Class A Shares – Mr. Xu Bing</b>				
Vision Worldwide <sup>(6)</sup>	Beneficial interest	104,190,097 Class A Shares	1.39%	0.31%
Mr. Xu Bing	Interest in a controlled corporation	104,190,097 Class A Shares	1.39%	0.31%
<b>Class B Shares – Dr. Xu Li</b>				
Dr. Xu Li through SenseTalent <sup>(7)</sup>	Beneficial interest	565,386,529 Class B Shares	2.18%	1.69%

## Directors' Report

Name	Nature of interest <sup>(1)</sup>	Number and class of shares held	Approximate percentage of shareholding of each class of shares in our Company <sup>(2)</sup>	Approximate percentage of shareholding in the issued and outstanding share capital of our Company <sup>(2)</sup>
<b>Class B Shares – Dr. Wang Xiaogang</b>				
Dr. Wang Xiaogang through SenseTalent <sup>(7)</sup>	Beneficial interest	302,140,243 Class B Shares	1.16%	0.90%
Infinity Vision <sup>(5)</sup>	Beneficial interest	8,644,928 Class B Shares	0.03%	0.03%
Dr. Wang Xiaogang	Interest in a controlled corporation	8,644,928 Class B Shares	0.03%	0.03%
<b>Class B Shares – Mr. Xu Bing</b>				
Mr. Xu Bing through SenseTalent <sup>(7)</sup>	Beneficial interest	252,236,581 Class B Shares	0.97%	0.75%
<b>Class B Shares – Mr. Li Wei</b>				
Mr. Li Wei through Ms. Cui Jingtao <sup>(8)</sup>	Interest of spouse	1,800,000 Class B Shares	0.01%	0.01%

## Notes:

- (1) All interests stated are long position.
- (2) The calculations are based on the number of Shares in issue as at December 31, 2023. As at December 31, 2023, 7,520,115,072 Class A Shares and 25,948,809,928 Class B Shares were in issue.
- (3) The entire interest in Amind was held by Prof. Tang Xiao'ou prior to his passing on December 15, 2023. Upon the passing of Prof. Tang Xiao'ou, the weighted voting rights in the 6,906,080,602 Class A Shares held by Amind ceased and such Class A Shares are expected to be converted into Class B Shares on one-to-one basis. The beneficial interests in Amind is pending transmission and succession arrangements under the applicable laws.
- (4) The entire interest in XWorld is held by Dr. Xu Li.
- (5) The entire interest in Infinity Vision is held by Dr. Wang Xiaogang.
- (6) The entire interest in Vision Worldwide is held by Mr. Xu Bing.
- (7) The interests comprise underlying Class B Shares in respect of the options granted pursuant to the Pre-IPO ESOP.
- (8) Ms. Cui Jingtao is the spouse of Mr. Li Wei. Under the SFO, Mr. Li Wei is deemed to be interested in the same number of Shares in which Ms. Cui Jingtao is interested.

Save as disclosed above, as at December 31, 2023, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or are required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying shares of the Company

So far as the Directors are aware, as at December 31, 2023, other than the Directors and the chief executive, the following persons had interests and/or short positions (as applicable) in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

#### Interests in Shares of the Company

Name	Nature of interest <sup>(1)</sup>	Number and class of shares held	Approximate percentage of shareholding of each class of shares in our Company <sup>(2)</sup>	Approximate percentage of shareholding in the issued and outstanding share capital of our Company <sup>(2)</sup>
<b>Class B Shares – SenseTalent</b>				
SenseTalent <sup>(3)</sup>	Beneficial interest	3,513,104,441 Class B Shares	13.54%	10.50%
Ms. Lin Jiemin <sup>(3)</sup>	Interest in a controlled corporation	3,513,104,441 Class B Shares	13.54%	10.50%
<b>Class B Shares – Softbank<sup>(5)</sup></b>				
SVF Sense (Singapore) Pte. Ltd. <sup>(4)</sup>	Beneficial interest	2,845,616,397 Class B Shares	10.97%	8.50%
SVF Holdings (Singapore) Pte. Ltd. <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%
SVF Holdings (UK) LLP <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%
SoftBank Vision Fund L.P. <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%
SB Investment Advisers (UK) Limited <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%
SVF GP (Jersey) Limited <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%
Vision Technology Investment Company <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%
Public Investment Fund <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%
SoftBank Group Corp. <sup>(4)</sup>	Interest in a controlled corporation	2,845,616,397 Class B Shares	10.97%	8.50%

## Directors' Report

## Notes:

- (1) All interests stated are long position.
- (2) The calculations are based on the number of Shares in issue as at December 31, 2023. As at December 31, 2023, 7,520,115,072 Class A Shares and 25,948,809,928 Class B Shares were in issue.
- (3) As Ms. Lin Jiemin holds 68.13% interest in SenseTalent, Ms. Lin Jiemin is deemed to be interested in the 3,513,104,441 Class B Shares held by SenseTalent.
- (4) SVF Sense (Singapore) Pte. Ltd. is indirectly wholly owned by SVF Holdings (UK) LLP through its wholly-owned SVF Holdings (Singapore) Pte. Ltd. SoftBank Vision Fund L.P. is the managing member of SVF Holdings (UK) LLP. The general partner of SoftBank Vision Fund L.P. is SVF GP (Jersey) Limited, which is ultimately wholly owned by SoftBank Group Corp. (TYO: 9984). SVF GP (Jersey) Limited appointed SB Investment Advisers (UK) Limited, ultimately wholly owned by SoftBank Group Corp. (TYO: 9984), as the manager of SoftBank Vision Fund L.P.. SB Investment Advisers (UK) Limited is exclusively responsible for making all decisions related to the acquisition, structuring, financing, voting, and disposal of investments held by SoftBank Vision Fund L.P. In addition, based on the substantial shareholder notices filed with the Stock Exchange, Vision Technology Investment Limited holds 45.65% interests in SoftBank Vision Fund L.P. and Vision Technology Investment Limited is in turn 100% controlled by the Public Investment Fund.  
  
Subsequent to the Reporting Period, substantial shareholder notices were filed by the relevant SoftBank entities with the Stock Exchange on February 20, 2024, March 4, 2024, March 12, 2024, March 19, 2024, March 28, 2024 and April 9, 2024 respectively. Please refer to the relevant substantial shareholder notices for the details of interests in the Shares of the Company held by the relevant SoftBank entities subsequent to the Reporting Period.
- (5) The number and the percentage shares as disclosed are based on the substantial shareholder notices filed with the Stock Exchange up to the end of the Reporting Period.

Save as disclosed above, as at December 31, 2023, the Directors were not aware of any other person had any interest and/or short positions in the Shares or underlying shares of our Company which fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

**CONNECTED TRANSACTIONS****Distributorship Agreement with JCV****Principal Terms**

SenseTime HK entered into a distributorship agreement with Japan Computer Vision Corp. ("JCV") dated August 30, 2019, which were subsequently amended on October 13, 2020, December 18, 2020 and December 3, 2021 (the "Distributorship Agreement") for a term expiring on December 31, 2024, subject to renewal upon the mutual consent of both parties. Pursuant to the Distributorship Agreement, (i) SenseTime HK grants to JCV the distributorship rights to import, distribute and sell in various markets (including Japan) hardware products and software products; and (ii) SenseTime HK provides professional services to JCV which will be required for JCV's customers to use or consume the hardware products and software products sold to them by JCV.

JCV is a wholly-owned subsidiary of SoftBank Corp., a 30%-controlled company of SoftBank Group Corp. which is in turn the holding company of SVF Sense (Singapore) Pte. Ltd. Based on the Company's inquiries with SVF Sense (Singapore) Pte. Ltd, SVF Sense (Singapore) Pte. Ltd. ceased to be a substantial shareholder holding 10% or more of the issued share capital of the Company on July 31, 2023. As such, with effect from July 31, 2023, SVF Sense (Singapore) Pte. Ltd., and accordingly JCV, ceased to be a connected person of the Company. Therefore, from July 31, 2023 onwards, the Distributorship Agreement no longer constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

### Basis of Consideration

For the hardware products, prior to January 1, 2021, JCV shall pay to the Company (i) the relevant per unit price, which is determined on arm's length basis, taking into account the costs of the hardware products (including production costs, material costs and research and development costs) and with reference to prices generally offered by our Group to Independent Third Parties; and (ii) part of the revenue generated from the sales by JCV as recognized under Japan GAAP (the "JCV Sales Revenue"). Under such pricing arrangement, JCV shall pay to the Company, on monthly basis, 60% of the JCV Sales Revenue generated from the Company's hardware after deducting the sum of the hardware product price JCV pays on per-order basis. The parties agreed to the change of pricing policies in December 2020 after accumulating experience in distributing the hardware products. It was agreed that in order to provide more incentive for JCV to expand into the local markets and increase the competitiveness of the sale of the Company's products in the relevant markets, which would translate into an increase of JCV's procurement from the Company, with effect from January 1, 2021, JCV shall only pay to the Company per unit price of the relevant hardware products, which is determined on arm's length basis and as adjusted from time to time.

For the software products, JCV shall pay to the Company part of the JCV Sales Revenue, being 60% (for before July 31, 2021) or 50% (for after August 1, 2021) of the JCV Sales Revenue generated from the Company's software on monthly basis. To cover the Company's costs incurred in localizing the products when entering into the relevant markets (such as adding new features which cater to the customers of the local markets, improving the quality and level of security of the software products and translating the user interface and documentation into various local languages), the parties agreed to a higher revenue sharing ratio of 60% for the Company during the initial two years of the Distributorship Agreement. It was contemplated that after two years, the relevant localization of the products would become more cost efficient with the leverage on previous work done, so that the parties agreed to a 50/50 revenue sharing ratio after two years.

For the professional services, JCV shall pay to the Company the services fees based on the nature and scope of the services, and the man-hour used for the relevant services.

### Annual Caps

In relation to the Distributorship Agreement, the transaction amounts to be paid by JCV to SenseTime HK for the four years ending December 31, 2024 shall not exceed the annual caps as set out in the table below:

	Annual caps for the year ended/ending December 31,			
	2021	2022	2023	2024
	(RMB in millions)			
Transaction amounts to be paid by JCV to SenseTime HK	169.8	238.0	333.5	466.5

From January 1, 2023 and up to July 31, 2023 (being the date on which JCV ceased to be a connected person of the Company), the actual transaction amount paid by JCV to SenseTime HK pursuant to the Distributorship Agreement was RMB11.4 million. As the Distributorship Agreement no longer constitutes a continuing connected transaction of the Company from July 31, 2023 onwards, the transaction amounts under the Distributorship Agreement are no longer subject to the annual cap requirements from July 31, 2023 onwards.

## Directors' Report

**Software License Agreement with JCV****Principal Terms**

SenseTime HK entered into a software license agreement with JCV dated June 8, 2022 (the "Software License Agreement"). SenseTime HK shall be entitled to conduct a review on the license granted under the Software License Agreement every ten (10) years, and shall be entitled to terminate the license granted under the Software License Agreement upon such review by providing at least six (6) months written notice to JCV prior to the date of termination.

Pursuant to the Software License Agreement, (i) SenseTime HK granted a license (the "License") in respect of the SenseXchange software platform developed by SenseTime HK and its associated documentation files (the "Software") to JCV, pursuant to which JCV shall be entitled to (a) use, copy, modify or merge the Software and (b) publish, distribute, sublicense the modified Software in various markets (being such markets as set out in the Distributorship Agreement); (ii) SenseTime HK agreed to provide certain supporting services in connection with the grant of the License to JCV, including (a) maintenance and technical support services (the "Maintenance Services") in relation to the Software to JCV for a period of five (5) years commencing from the date on which JCV issues its final written acceptance of the delivery of the Software to SenseTime HK in accordance with the terms of the Software License Agreement (the "Acceptance Date"); (b) consulting services (the "Consulting Services") in respect of the provision of certain trainings and project-specific advice in relation to the Software to JCV upon JCV's request for a period of one (1) year (provided that such request shall be made within thirty (30) days from the Acceptance Date); and (c) algorithm upgrading services and customization services (together, the "Other Services") in relation to the Software to JCV upon request from JCV for a period of five (5) years commencing from the Acceptance Date (provided that the algorithm upgrading services shall be provided up to only once every two calendar years and specific service agreements in relation to provision of such services shall be entered into).

Please refer to the paragraph headed "Distributorship Agreement with JCV" for the relationships of JCV with the Company. Accordingly, from July 31, 2023 onwards, the Software License Agreement no longer constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

**Fees and Payment Terms**

Pursuant to the Software License Agreement, the following fees shall be payable by JCV to SenseTime HK:

***In relation to the License***

USD5,000,000 (equivalent to approximately HK\$39,250,000), being the license fee, payable in four (4) equal instalments on the Acceptance Date, December 31, 2022, March 31, 2023 and June 30, 2023 respectively.

***In relation to the Maintenance Services***

USD1,000,000 (equivalent to approximately HK\$7,850,000), being the annual fee for the Maintenance Services to be paid annually within sixty (60) days before the dates which are one (1) year, two (2) years, three (3) years and four (4) years after the Acceptance Date respectively. The total fees payable by JCV to SenseTime HK for the Maintenance Services shall be USD4,000,000 (equivalent to approximately HK\$31,400,000).

***In relation to Consulting Services***

Upon JCV's request for SenseTime HK to provide the consulting services, the fees for such consulting services will be payable within sixty (60) days upon JCV's receipt of SenseTime HK's invoice for such services. It is currently estimated that the aggregate fees payable by JCV to SenseTime HK for the consulting services will not exceed US\$1,320,000 (equivalent to approximately HK\$10,362,000). If the aggregate fees for the consulting services exceeded such fee estimate, the additional fees and payment terms shall be further agreed between SenseTime HK and JCV by way of specific service agreements or purchase orders.

**In relation to Other Services**

Upon each request from JCV for SenseTime HK to provide algorithm upgrading services, a service fee of US\$2,500,000 (equivalent to approximately HK\$19,625,000) is payable by JCV to SenseTime HK. Upon JCV's request for SenseTime HK to provide the customization services, SenseTime HK and JCV shall separately agree on the fees for such customization services through arm's length negotiations, taking into account the scope of such customization services as requested by JCV and the prevailing market price for SenseTime HK to provide similar services.

**Basis of Consideration**

In relation to the license of the Software and the other supporting services under the Software License Agreement, the fees described above were determined after arm's length negotiations between SenseTime HK and JCV, taking into account the prices quoted by third parties for the licensing of similar software and provision of similar services, the prices charged by SenseTime HK for the licensing of similar software and provision of similar services to its other customers, the subject volume, scale, resources required, relevant costs to the Group, and the prevailing market conditions.

**Annual Caps**

In relation to the Software License Agreement, the transaction amounts to be paid by JCV to SenseTime HK for the five financial years ending December 31, 2026 shall not exceed the annual caps as set out in the table below:

	Annual caps for the financial year ended/ending December 31,				
	2022	2023	2024	2025	2026
	(USD in millions)				
Transaction amounts to be paid by JCV to SenseTime HK	6.16	2.66	4.50	4.00	4.00

From January 1, 2023 and up to July 31, 2023 (being the date on which JCV ceased to be a connected person of the Company), the actual transaction amount paid by JCV to SenseTime HK pursuant to the Software License Agreement was RMB1.2 million (equivalent to approximately USD0.168 million). As the Software License Agreement no longer constitutes a continuing connected transaction of the Company from July 31, 2023 onwards, the transaction amounts under the Software License Agreement are no longer subject to the annual cap requirements from July 31, 2023 onwards.

**Confirmation from Independent Non-executive Directors**

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions contemplated under the Distributorship Agreement and the Software License Agreement, and confirmed that such continuing connected transactions had been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

## Directors' Report

**Confirmation from the Auditor**

The Auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this annual report in accordance with Rule 14A.56 of the Listing Rules.

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions contemplated under the Distributorship Agreement and the Software License Agreement from January 1, 2023 and up to July 31, 2023 (being the date on which JCV ceased to be a connected person of the Company):

- (i) nothing has come to its attention that causes it to believe that the transactions have not been approved by the Board;
- (ii) nothing has come to its attention that causes it to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

- (iii) nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; or
- (iv) nothing has come to its attention that causes it to believe that the transactions have exceeded the cap.

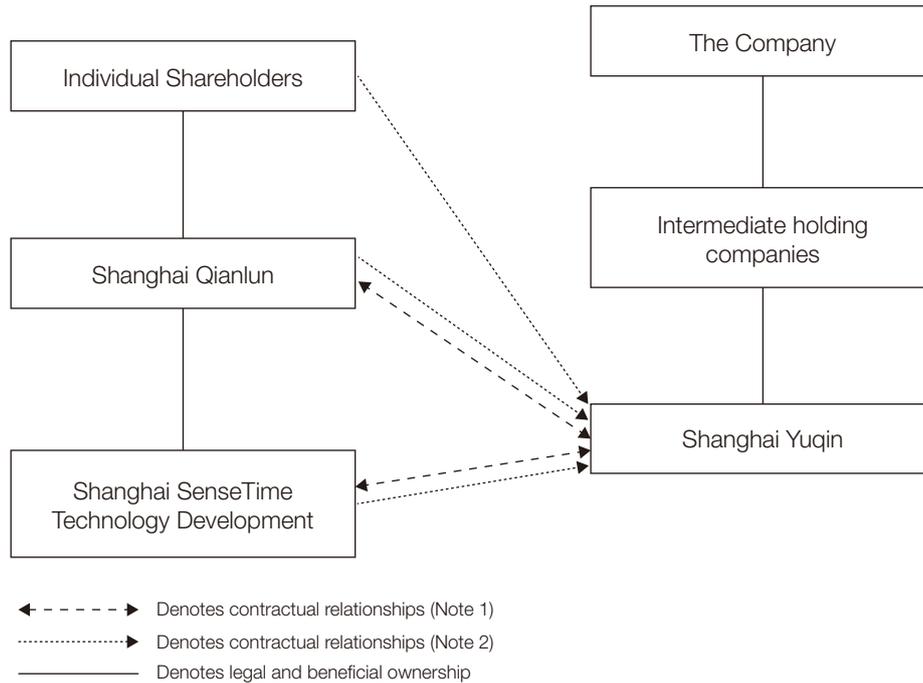
**1st Contractual Arrangement**

The Company controls two consolidated affiliated entities, namely Shanghai Qianlun and Shanghai SenseTime Technology Development through the 1st Contractual Arrangement, pursuant to which the Company has effective control over, and receive all the economic benefits generated by the businesses currently operated by each of Shanghai Qianlun and Shanghai SenseTime Technology Development.

Each of Shanghai Qianlun and Shanghai SenseTime Technology Development, were set up in 2020. As at December 31, 2023, Shanghai SenseTime Technology Development was wholly-owned by Shanghai Qianlun, which was held by Mr. Yang Fan and Mr. Ma Kun as to 50% each.

For details of Mr. Yang Fan, please refer to the paragraph headed "Biographical Details of Senior Management" in the Directors' Report. Mr. Ma Kun is a co-founder of the Group and has been appointed the technical executive director of the Company since June 2015. He is primarily responsible for the product development of AI system and smart devices; in particular, he works with Dr. Wang Xiaogang in the research and development of the Group's computer vision & deep learning technology and use case. Before joining the Group, Mr. Ma Kun worked at Wochacha Information Technology (Shanghai) Ltd. (我查查信息技術(上海)有限公司) and was a PhD candidate in the Electronic Engineering Program at the Chinese University of Hong Kong with a master degree in engineering from Xidian University (西安電子科技大學).

The following simplified diagram illustrates the 1st Contractual Arrangement that was in place as at December 31, 2023:



Notes:

- (1) Shanghai Yuqin (being our indirect wholly-owned subsidiary) provides business support, technical and consulting services in exchange for service fees from Shanghai Qianlun and Shanghai SenseTime Technology Development respectively. See "Summary of Agreements under the 1st Contractual Arrangement – Exclusive Business Cooperation Agreement" below.
- (2) The Individual Shareholders executed exclusive options agreement in favor of Shanghai Yuqin, to acquire all or part of the equity interests in and all or part of the assets in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See "Summary of Agreements under the 1st Contractual Arrangement – Exclusive Options Agreement" below.

The Individual Shareholders executed powers of attorney in favor of Shanghai Yuqin, to exercise all shareholders' rights in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See "Summary of Agreements under the 1st Contractual Arrangement – Powers of Attorney" below.

The Individual Shareholders granted first priority security interests in favor of Shanghai Yuqin, over the entire equity interests in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See "Summary of Agreements under the 1st Contractual Arrangement – Equity Pledge Agreement" below.

The principal business of Shanghai SenseTime Technology Development is operating the Group's Shanghai Lingang AIDC, which was launched in early 2022.

For the year ended December 31, 2023, the total revenue of Shanghai Qianlun and Shanghai SenseTime Technology Development amounted to RMB1,102.6 million, representing 32.4% of the total revenue of the Group. As at December 31, 2023, the total assets of Shanghai Qianlun and Shanghai SenseTime Technology Development amounted to RMB4,546.4 million, representing 13.8% of the total assets of the Group.

## Directors' Report

During the Reporting Period, (i) there was no material change in the 1st Contractual Arrangement and/or the circumstances under which it was adopted, (ii) the 1st Contractual Arrangement had not been terminated because none of the restrictions that led to the adoption of the 1st Contractual Arrangement had been removed, and (iii) the Company has not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through Shanghai Qianlun and Shanghai SenseTime Technology Development under the 1st Contractual Arrangement.

### **Summary of Agreements under the 1st Contractual Arrangement**

A brief description of each of the specific agreements that comprise the 1st Contractual Arrangement is set out below.

#### ***Exclusive Business Cooperation Agreement***

As part of the 1st Contractual Arrangement, Shanghai Qianlun, Shanghai SenseTime Technology Development and Shanghai Yuqin have entered into exclusive business cooperation agreement. Pursuant to the exclusive business cooperation agreement, Shanghai Qianlun and Shanghai SenseTime Technology Development agreed to engage Shanghai Yuqin as its exclusive provider of business support, technical and consultancy services, including but not limited to, technical services, network support, business consultation, licensing of intellectual properties, system integration, product research and development, system maintenance and management consultancy services. In exchange for these services, Shanghai Qianlun and Shanghai SenseTime Technology Development shall pay a service fee, which equal to its profit before tax, deducting any of its accumulated losses from the preceding fiscal year, costs, expenses, tax and other statutory contribution in relation to the respective fiscal year, which will be wired to the designated account of

Shanghai Yuqin upon issuance of payment notification by Shanghai Yuqin. Shanghai Yuqin enjoys all the economic benefits derived from the businesses of Shanghai Qianlun and Shanghai SenseTime Technology Development and bears the relevant portion of the business risks of Shanghai Qianlun and Shanghai SenseTime Technology Development. If Shanghai Qianlun and Shanghai SenseTime Technology Development run into financial deficit or suffer severe operation difficulties, Shanghai Yuqin will provide financial support to Shanghai Qianlun and Shanghai SenseTime Technology Development.

#### ***Exclusive Options Agreement***

As part of the 1st Contractual Arrangement, Shanghai Qianlun, Shanghai SenseTime Technology Development and Shanghai Yuqin have entered into an exclusive options agreement. Pursuant to the exclusive options agreement, Shanghai Yuqin has the irrevocable and exclusive right to purchase, or to designate one or more persons to purchase, from the Individual Shareholders (i) all or any part of their respective equity interests in Shanghai Qianlun and Shanghai SenseTime Technology Development and/or (ii) all or any part of the respective assets of Shanghai Qianlun and Shanghai SenseTime Technology Development at any time and from time to time in Shanghai Yuqin's absolute discretion to the extent permitted by PRC laws. The consideration shall be a nominal price or other price approved by Shanghai Yuqin, while if the relevant governmental authority or PRC Law requires that the consideration shall be other price, the consideration shall be the lowest price as permitted under applicable PRC laws or other price approved by Shanghai Yuqin. The Individual Shareholders and the respective Consolidated Affiliated Entity have also undertaken that, they will return to Shanghai Yuqin or an entity designated by it any consideration they receive in the event that any of the options under the exclusive options agreements is exercised.

**Powers of Attorney**

The Individual Shareholders have executed the power of attorney, each of which contains similar terms and conditions, whereby the Individual Shareholders appointed Shanghai Yuqin, any directors authorized by Shanghai Yuqin or his/her successors or a liquidator replacing such person as their exclusive agent and attorney to act on their behalf on all matters concerning Shanghai Qianlun and Shanghai SenseTime Technology Development respectively and to exercise all of its rights as a registered shareholder of Shanghai Qianlun and Shanghai SenseTime Technology Development respectively in accordance with PRC laws and the articles of Shanghai Qianlun and Shanghai SenseTime Technology Development respectively.

**Equity Pledge Agreement**

As part of the 1st Contractual Arrangement, the respective Individual Shareholders have entered into the equity pledge agreements with Shanghai Yuqin and each of Shanghai Qianlun and Shanghai SenseTime Technology Development, each of which contains similar terms and conditions. Pursuant to the equity pledge agreements, the Individual Shareholders agreed to pledge as all of their respective equity interests in Shanghai Qianlun and Shanghai SenseTime Technology Development that they own, including any interest or dividend paid for the shares, to Shanghai Yuqin as collateral security for any or all of their payments due to Shanghai Yuqin and to secure performance of their obligations under the 1st Contractual Arrangement.

**Reasons for Adopting the 1st Contractual Arrangement**

The operation of the Group's Shanghai Lingang AIDC is considered as "restricted" under the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version). The provision of such services is regarded as the business of internet data center, which falls within the scope of "value-added telecommunication service" under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) and Telecommunication Business Catalog (《電信業務分類目錄》), as last amended by the MIIT on June 6, 2019. The operation of such business would require the Value-added Telecommunication Business Operation Permit with Internet Data Center Services (including internet resources cooperation services) ("IDC License") which is subject to foreign ownership restrictions. Shanghai SenseTime Technology Development has obtained an IDC License.

According to the Administrative Regulations on Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, foreign investors are not allowed to hold the equity interests in a company holding IDC License unless otherwise required by other PRC laws and regulations. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in and a proven track record of operating value-added telecommunications businesses (the "Qualification Requirements"). Foreign investors that meet these requirements must obtain approvals from the MIIT and MOFCOM or their authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements.

## Directors' Report

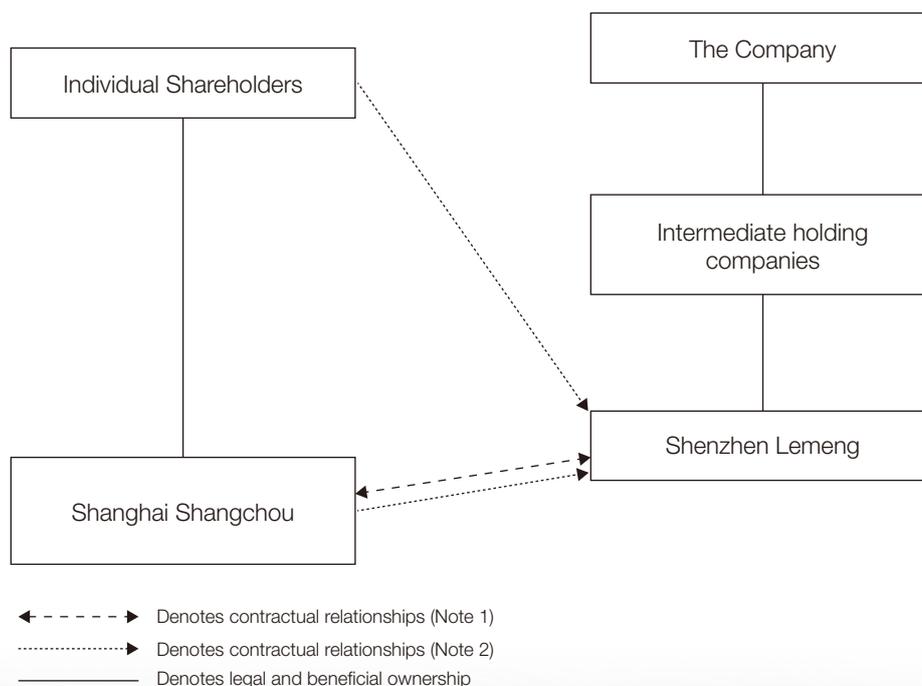
Given that a foreign investor is restricted from holding any equity interest of an entity that holds a IDC License under the current PRC laws and regulations, and also that there exists substantial uncertainties surrounding (a) how the Qualification Requirements can be fulfilled by a foreign investor, (b) the objective criteria under which the Qualification Requirements can be fulfilled, and (c) how long the Group has to wait before it is able to build a proven track record and prior experience Qualification Requirements, the Company considered that it is not viable to hold Shanghai Qianlun and Shanghai SenseTime Technology Development directly or indirectly through equity ownership. In line with common practice in industries in the PRC subject to foreign investment restrictions, the Company decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, it would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Shanghai Qianlun and Shanghai SenseTime Technology Development through the 1st Contractual Arrangement.

## 2nd Contractual Arrangement

In addition to the 1st Contractual Arrangements, the Company also controls another consolidated affiliated entity, namely Shanghai Shangchou, through the 2nd Contractual Arrangements pursuant to which the Company has effective control over, and receive all the economic benefits generated by the businesses currently operated by Shanghai Shangchou.

Shanghai Shangchou was set up in 2022 and was held by Mr. Yang Fan and Mr. Ma Kun as to 50% each. For details of Mr. Yang Fan and Mr. Ma Kun, please refer to the paragraph headed "1st Contractual Arrangement" above.

The following simplified diagram illustrates the 2nd Contractual Arrangement that was in place as at December 31, 2023:



## Notes:

- (1) Shenzhen Lemeng (being our indirect wholly-owned subsidiary) will provide business support, technical and consultancy services in consideration for service fees from Shanghai Shangchou pursuant to the Exclusive Business Cooperation Agreement as described below. See "Summary of Agreements under the 2nd Contractual Arrangement – Exclusive Business Cooperation Agreement" below.
- (2) Each of the Individual Shareholders has executed the Exclusive Option Agreement in favour of Shenzhen Lemeng as described below, pursuant to which Shenzhen Lemeng has been granted an option to purchase the whole or part of equity interest in Shanghai Shangchou from each of the Individual Shareholders. See "Summary of Agreements under the 2nd Contractual Arrangement – Exclusive Options Agreement" below.

Each of the Individual Shareholders has executed the Equity Pledge Agreement as described below, pursuant to which each of the Individual Shareholders has pledged all of the respective equity interest held by them in Shanghai Shangchou to Shenzhen Lemeng. See "Summary of Agreements under the 2nd Contractual Arrangement – Powers of Attorney" below. "Summary of Agreements under the 2nd Contractual Arrangement – Equity Pledge Agreement" below.

Each of the Individual Shareholders has executed the Power of Attorney as described below, pursuant to which the Individual Shareholders has agreed to appoint Shenzhen Lemeng or its nominee to exercise all shareholders' rights in Shanghai Shangchou on their behalf.

The principal business of Shanghai Shangchou is operation of AIDC in the PRC.

For the year ended December 31, 2023, the total revenue of Shanghai Shangchou amounted to nil, representing nil% of the total revenue of the Group. As at December 31, 2023, the total assets of Shanghai Shangchou amounted to RMB41.4 million, representing 0.1% of the total assets of the Group.

During the Reporting Period, (i) there was no material change in the 2nd Contractual Arrangement and/or the circumstances under which it was adopted, (ii) the 2nd Contractual Arrangement had not been terminated because none of the restrictions that led to the adoption of the 2nd Contractual Arrangement had been removed, and (iii) the Company has not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through Shanghai Shangchou under the 2nd Contractual Arrangement.

### Summary of Agreements under the 2nd Contractual Arrangement

A brief description of each of the specific agreements that comprise the 2nd Contractual Arrangement is set out below.

#### **Exclusive Business Cooperation Agreement**

As part of the 2nd Contractual Arrangement, Shanghai Shangchou and Shenzhen Lemeng have entered into exclusive business cooperation agreement. Pursuant to the exclusive business cooperation agreement, Shanghai Shangchou agreed to engage Shenzhen Lemeng as its exclusive provider of business support, technical and consultancy services, including but not limited to, technical services, network support, business consultation, licensing of intellectual properties, system integration, product research and development, system maintenance and management consultancy services. In exchange for these services, Shanghai Shangchou shall pay a service fee, which equals to its profit before tax, deducting its operating costs, expenses, tax and profits required to be retained pursuant to the arm's length principle under the PRC laws. Shenzhen Lemeng enjoys all the economic benefits derived from the businesses of Shanghai Shangchou and bears the relevant portion of the business risks of Shanghai Shangchou. If Shanghai Shangchou runs into financial deficit or suffer severe operation difficulties, Shenzhen Lemeng will provide financial support to Shanghai Shangchou.

## Directors' Report

### **Exclusive Options Agreement**

As part of the 2nd Contractual Arrangement, Shanghai Shangchou and Shenzhen Lemeng have entered into an exclusive options agreement. Pursuant to the exclusive options agreement, Shenzhen Lemeng has the irrevocable and exclusive right to purchase, or to designate one or more persons to purchase, from the Individual Shareholders (i) all or any part of their respective equity interests in Shanghai Shangchou and/or (ii) all or any part of the assets of Shanghai Shangchou at any time and from time to time in Shenzhen Lemeng's absolute discretion to the extent permitted by PRC laws. The consideration shall be a nominal price or other price approved by Shanghai Yuqin, while if the relevant governmental authority or PRC Law requires that the consideration shall be other price, the consideration shall be the lowest price as permitted under applicable PRC laws or other price approved by Shenzhen Lemeng. The Individual Shareholders and the respective Consolidated Affiliated Entity have also undertaken that, they will return to Shenzhen Lemeng or an entity designated by it any consideration they receive in the event that any of the options under the exclusive options agreements is exercised.

### **Powers of Attorney**

The Individual Shareholders have executed the power of attorney, each of which contains similar terms and conditions, whereby the Individual Shareholders appointed Shenzhen Lemeng, any directors authorized by Shenzhen Lemeng or his/her successors or a liquidator replacing such person as their exclusive agent and attorney to act on their behalf on all matters concerning Shanghai Shangchou and to exercise all of its rights as a registered shareholder of Shanghai Shangchou in accordance with PRC laws and the articles of Shanghai Shangchou.

### **Equity Pledge Agreement**

As part of the 2nd Contractual Arrangement, the respective Individual Shareholders have entered into the equity pledge agreements with Shenzhen Lemeng and Shanghai Shangchou, each of which contains similar terms and conditions. Pursuant to the equity pledge agreements, the Individual Shareholders agreed to pledge as all of their respective equity interests in Shanghai Shangchou that they own, including any interest or dividend paid for the shares, to Shenzhen Lemeng as collateral security for any or all of their payments due to Shenzhen Lemeng and to secure performance of their obligations under the 2nd Contractual Arrangement.

### **Reasons for Adopting the 2nd Contractual Arrangement**

As disclosed in the paragraph headed "Reasons for adopting the 1st Contractual Arrangement" above, the operation of AIDC would require the IDC License which is subject to foreign ownership restrictions. Shanghai Shangchou has obtained an IDC License.

As such, given that a foreign investor is restricted from holding any equity interest of an entity that holds a IDC License under the current PRC laws and regulations, and also that there exists substantial uncertainties surrounding (a) how the Qualification Requirements can be fulfilled by a foreign investor, (b) the objective criteria under which the Qualification Requirements can be fulfilled, and (c) how long the Group has to wait before it is able to build a proven track record and prior experience Qualification Requirements, the Company considered that it is not viable to hold Shanghai Shangchou directly or indirectly through equity ownership. In line with common practice in industries in the PRC subject to foreign investment restrictions, the Company decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, it would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Shanghai Shangchou through the 2nd Contractual Arrangement.

In addition, notwithstanding that the Company is also carrying on its AIDC operations in the PRC through Shanghai Qianlun, the Company believes that through establishing the 2nd Contractual Arrangements (instead of setting up new subsidiary under the 1st Contractual Arrangements) to carry out the new AIDC operations of the Group in the PRC, the Group will be better able to ring-fence any potential liabilities which may arise in the ordinary course of business through operation of each AIDC, which will in turn facilitate the Group to better protect its assets held through Shanghai Shangchou.

### 3rd Contractual Arrangement

Subsequent to the Reporting Period, on January 29, 2024, the Company adopted the 3rd Contractual Arrangements for the purposes of facilitating further AIDC operation of the Group in the PRC. For details of the 3rd Contractual Arrangements, please refer to the announcement of the Company dated January 29, 2024.

### Risks associated with the Contractual Arrangements

The Company believes that the following risks are associated with the Contractual Arrangements:

- (1) If the PRC government deems the Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, the Group could be subject to severe penalties or be forced to relinquish its interests in those operations.
- (2) Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of the current corporate structure, corporate governance and business operations of the Group.
- (3) Any failure by the Consolidated Affiliated Entities or its shareholders to perform their obligations under the Contractual Arrangements with them would have a material and adverse effect on the Group's business.
- (4) The Company rely on the Contractual Arrangements with the Consolidated Affiliated Entities and its shareholders to exercise control over its business, which may not be as effective as direct ownership in providing operational control.
- (5) The Group's control over the Consolidated Affiliated Entities is based on the arrangements under the Contractual Arrangements. Although the Group has adopted measures to minimise any conflict of interests between the Company and the Individual Shareholders (including but not limited to requiring the Individual Shareholders to irrevocably appoint any person as designated by Shanghai Yuqin or Shenzhen Lemeng (as the case may be, and including their respective liquidator, if any) as their representative to exercise the voting rights as the shareholders of the Consolidated Affiliated Entities, in the unlikely event that any conflict of interests of the Individual Shareholders arises, it may adversely affect the interests of the Company.
- (6) If the Company exercises the option to acquire equity ownership and assets of any of the Consolidated Affiliated Entities, the ownership transfer may subject the Group to certain limitations and substantial costs.
- (7) The contractual arrangement with the Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that the Group or the Consolidated Affiliated Entities owe additional taxes, which could negatively affect the Company's financial condition and the value of the Shareholders' investment.

## Directors' Report

- (8) The Group may lose the ability to use and benefit from assets held by the Consolidated Affiliated Entities and their subsidiaries that are material to the operation of the Group's business if the entities go bankrupt or become subject to a dissolution or liquidation proceeding.
- (9) As the primary beneficiary under the Contractual Arrangements, the Group bears economic risks as a result of exposure to the Consolidated Affiliated Entities' losses and the potential need to provide financial support to the Consolidated Affiliated Entities.
- (10) Certain terms of the Contractual Arrangements in relation to power of the arbitral tribunal of the PRC to order the winding up of the Consolidated Affiliated Entities or to order temporary injunctive relief or other temporary relief from the courts of Hong Kong, the Cayman Islands, the PRC and the location where the Consolidated Affiliated Entities' principal assets are located may not be enforceable under the PRC laws.
- (11) The Group does not maintain any insurance which covers the risks relating to the Contractual Arrangements and the transactions contemplated thereunder. Therefore, if any risks arise from the Contractual Arrangements in the future (such as those affecting the enforceability of the Contractual Arrangements), the results of the Group may be adversely affected.

**Actions by the Company to Mitigate the Associated Risks**

To mitigate the aforementioned risks and to ensure the effective operation of the Group with the implementation of and compliance with the Contractual Arrangements, the Company has adopted the following measures:

- (1) major issues arising from the implementation and compliance with each of the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (2) the Board will review the overall performance of and compliance with each of the Contractual Arrangements at least once a year;
- (3) the Company will disclose the overall performance and compliance with each of the Contractual Arrangements in its annual reports; and
- (4) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of each of the Contractual Arrangements, review the legal compliance of the Consolidated Affiliated Entities to deal with specific issues or matters arising from any of the Contractual Arrangements.

In respect of the Qualification Requirements which necessitate the use of Contractual Arrangements, despite the lack of clear guidance or interpretation, the Company has been gradually building up its track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China. The Company is in the process of expanding its offshore value-added telecommunications business through its overseas subsidiaries. The Company has committed and will commit financial and other resources and implement all necessary measures to meet the Qualification Requirements, for instance:

- (1) the Group has established an overseas website and registered patents, trademarks and domain names outside of the PRC for the promotion of its businesses overseas; and
- (2) the Company has incorporated a number of overseas entities for the purpose of expanding its business overseas.

### **Listing Rules Implications and Waivers from the Stock Exchange**

#### ***1st Contractual Arrangement***

The transactions contemplated under the 1st Contractual Arrangement constitute continuing connected transactions of the Company under the Listing Rules as certain parties to the 1st Contractual Arrangement, namely Yang Fan and Ma Kun, are connected persons of the Group.

In respect of the 1st Contractual Arrangement, the Stock Exchange has granted a waiver (the "IPO Waiver") from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the 1st Contractual Arrangement pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the 1st Contractual Arrangement under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the 1st Contractual Arrangement to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Class B Shares are listed on the Stock Exchange, subject, however, to the following conditions:

- (1) No change to the 1st Contractual Arrangement (including with respect to any fees payable to Shanghai Yuqin) will be made without the approval of our independent non-executive Directors.
- (2) Save as described in paragraph (4) below, no change to the agreements governing the 1st Contractual Arrangement will be made without our independent Shareholders' approval.

## Directors' Report

- (3) The 1st Contractual Arrangement shall continue to enable the Group to receive the economic benefits derived by Shanghai Qianlun and Shanghai SenseTime Technology Development through (i) the Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests and assets for nil consideration or the minimum amount of consideration as permitted by applicable PRC laws, (ii) the business structure under which the profit generated by Shanghai Qianlun and Shanghai SenseTime Technology Development is substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to Shanghai Yuqin by Shanghai Qianlun and Shanghai SenseTime Technology Development under the exclusive business cooperation agreements, and (iii) the Group's right to control the management and operation of, as well as, in substance, the controlling voting rights of Shanghai Qianlun and Shanghai SenseTime Technology Development.
- (4) On the basis that the Contractual Arrangement provides an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on the one hand, and Shanghai Qianlun and Shanghai SenseTime Technology Development, on the other hand, that framework may be renewed and/or reproduced (i) upon the expiry of the existing arrangements or (ii) in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies), engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing 1st Contractual Arrangement.
- (5) The Company will disclose details relating to the 1st Contractual Arrangement on an on-going basis in specified manners.

**2nd Contractual Arrangement**

The transactions contemplated under the 2nd Contractual Arrangement constitute continuing connected transactions of the Company under the Listing Rules as certain parties to the 2nd Contractual Arrangement, namely Yang Fan and Ma Kun, are connected persons of the Group.

Since the 2nd Contractual Arrangement is reproduced from the 1st Contractual Arrangements as provided under the conditions of the IPO Waiver, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the 2nd Contractual Arrangements would fall within the scope of the waiver from the requirements of Chapter 14A of the Listing Rules as set out in the IPO Waiver and are exempt from (i) the announcement, circular and the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the 2nd Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of fixing the term of the 2nd Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Class B Shares are listed on the Stock Exchange, subject to compliance with the same conditions of the IPO Waiver.

**3rd Contractual Arrangement**

The 3rd Contractual Arrangements were adopted subsequent to the Reporting Period.

The transactions contemplated under the 3rd Contractual Arrangement constitute continuing connected transactions of the Company under the Listing Rules as certain parties to the 3rd Contractual Arrangement, namely Yang Fan and Ma Kun, are connected persons of the Group.

Since the 3rd Contractual Arrangements were reproduced from the 1st Contractual Arrangements as provided under the conditions of the IPO Waiver, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the 3rd Contractual Arrangements would fall within the scope of the waiver

from the requirements of Chapter 14A of the Listing Rules as set out in the IPO Waiver and are exempt from (i) the announcement, circular and the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the 3rd Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of fixing the term of the 3rd Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Class B Shares are listed on the Stock Exchange, subject to compliance with the same conditions of the IPO Waiver.

#### **Confirmation from Independent Non-executive Directors**

The independent non-executive Directors of the Company have reviewed each of the Contractual Arrangements and confirmed that, during the Reporting Period:

- (i) the transactions carried out have been entered into in accordance with the relevant provisions of the respective Contractual Arrangements;
- (ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and
- (iii) any new contracts entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities are fair and reasonable, or advantageous to the Shareholders, as far as the Group is concerned and in the interests of the Shareholders as a whole.

#### **Confirmation from the Auditor**

The Auditor has reviewed the transactions carried out pursuant to the Contractual Arrangements, and has confirmed in a letter to the Board that, with respect to the Contractual Arrangements during the Reporting Period:

- (i) nothing has come to its attention that causes it to believe that the relevant transactions have not been approved by the Board;

- (ii) nothing has come to its attention that causes it to believe that the relevant transactions have not been entered into in accordance with the respective Contractual Arrangements; and

- (iii) nothing has come to its attention that causes it to believe that dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to the Group.

The Group entered into certain transactions with "related parties" as defined under applicable accounting standards during the financial year ended December 31, 2023 which were disclosed in Note 38 to the consolidated financial statements. Save for the transactions with JCV during the period from January 1, 2023 up to July 31, 2023 (being the date on which JCV ceased to be a connected person of the Company) (the details of which are disclosed above), and the continuing connected transactions as disclosed above, no related party transactions disclosed in the consolidated financial statements constitutes a connected transaction as defined under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, during the year ended December 31, 2023, the Company had no connected transactions or continuing connected transactions which are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended December 31, 2023.

## Directors' Report

**AUDITOR AND AUDIT COMMITTEE****Auditor**

PricewaterhouseCoopers was the Auditor during the Reporting Period and there had been no change of the Company's auditor in the past three years. The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers. PricewaterhouseCoopers will retire at the forthcoming annual general meeting and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as Auditor will be proposed at the annual general meeting.

**Audit Committee**

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to (i) review and supervise the financial reporting process and the internal control system of the Group, (ii) oversee the audit process, (iii) provide advice and comments to the Board and (iv) perform other duties and responsibilities as assigned by the Board.

The Audit Committee currently comprises three members, namely Mr. Lyn Frank Yee Chon, Ms. Fan Yuanyuan and Mr. Li Wei. Mr. Lyn Frank Yee Chon, being the chairperson of the audit committee and an independent non-executive Director, has appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee, after the discussion with the Auditor, has reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2023. The Audit Committee has discussed matters in relation to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company and the Auditor. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

**Events after the Reporting Period**

Save for the subsequent events as described in Note 41 to the consolidated financial statements, there have been no other significant events that might affect the Group since the end of the Reporting Period and up to the Latest Practicable Date.

On behalf of the Board

**Xu Li**

*Executive Chairman*

*Chief Executive Officer*

Hong Kong, April 26, 2024

# Independent Auditor's Report

**To the Shareholders of SenseTime Group Inc.**

*(incorporated in the Cayman Islands with limited liability)*

**OPINION****What we have audited**

The consolidated financial statements of SenseTime Group Inc. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 92 to 218, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive loss 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.

## Independent Auditor's Report

### **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 – revenue recognised at a point in time
- Impairment assessment of trade and other receivables
- Fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments

**KEY AUDIT MATTERS (CONTINUED)**

<b>Key Audit Matters</b>	<b>How our audit addressed the Key Audit Matters</b>
<p data-bbox="209 541 798 605"><i>Revenue recognition – revenue recognised at a point in time</i></p> <p data-bbox="209 653 798 681">Refer to Note 6 to the consolidated financial statements.</p> <p data-bbox="209 728 798 976">During the year ended 31 December 2023, the Group recognised revenue of RMB3,405.8 million primarily from sales of advanced Artificial Intelligence (hereinafter “AI”) software, sales of AI software platform and related services, sales of AI software-embedded hardware, provision of research and development services and cloud services.</p> <p data-bbox="209 1024 798 1272">Revenue is recognised upon transfer of control, at a point in time or over time, depending on the nature of the arrangements. Majority of the Group’s revenue was recognised at a point in time, when the software or hardware and related services are delivered to the customer’s designated place, inspected and accepted by the customer.</p> <p data-bbox="209 1319 798 1461">We focused on this area because significant audit resources were devoted to this area due to the large volume of revenue transactions from various customers during the year.</p>	<p data-bbox="834 541 1420 642">Our procedures in relation to the auditing of revenue recognition – revenue recognised at a point in time included:</p> <ul style="list-style-type: none"> <li data-bbox="834 689 1420 791">– we understood, evaluated and validated, on a sample basis, the Group’s relevant controls in relation to revenue recognition;</li> <li data-bbox="834 838 1420 1052">– we tested the sales transactions, on a sample basis, by examining the relevant supporting documents, including sales contracts or customer orders, customers’ acceptance notes, etc. to assess whether revenue was properly recognised;</li> <li data-bbox="834 1099 1420 1313">– we inspected sales contracts, on a sample basis, to identify terms and conditions relating to the transfer of control and assessing the Group’s timing of revenue recognition with reference to the requirements of prevailing accounting standards;</li> <li data-bbox="834 1360 1420 1573">– we tested sales transactions recorded before and after the balance sheet date, on a sample basis, by tracing to the supporting documents, including the relevant customers’ acceptance notes, etc. to assess whether revenue was recognised in the correct reporting period; and</li> <li data-bbox="834 1621 1420 1763">– we sent confirmations, on a sample basis, to the customers to confirm the sales transactions for the year and respective trade receivable balances as at the year end date;</li> </ul> <p data-bbox="834 1811 1420 1908">Based on the procedures performed, we found that the Group’s revenue recognised was supported by the evidence obtained.</p>

## Independent Auditor's Report

## KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p><i>Impairment assessment of trade and other receivables</i></p> <p>Refer to Note 3.1(b), Note 4.1, Note 24(ii) and Note 24(iii) to the consolidated financial statements.</p> <p>As at 31 December 2023, the Group recorded gross balance of trade and other receivables of RMB8,473.2 million in which a corresponding allowance for expected credit loss ("ECL") of RMB4,585.6 million was recorded.</p> <p>The loss allowances for trade and other receivables reflected management's best estimate to determine the ECL at the balance sheet date under IFRS 9.</p> <p>For trade receivables with objective evidence of impairment and subject to separate assessment for impairment provision, management applied simplified approach to perform impairment assessment based on estimated cash flows and took into considerations of current and future economic situations to calculate the expected credit loss and to provide for individual impairment allowances. For trade receivables without objective evidence of impairment, simplified approach is applied to loss allowances by first grouping trade receivables based on their nature and risk characteristics and then analysing their aging information before further incorporating forward-looking adjustment factors, such as China's Gross Domestic Product ("GDP"), global GDP, China's Consumer Price Index ("CPI") and global CPI, to reflect the management's forecasts of macroeconomic factors in different scenarios as this affects the debtors' abilities to settle the receivables.</p> <p>For other receivables, management assessed whether their credit risk had increased significantly since their initial recognition and applied the three-stage approach to provide for their ECL using a modelling approach that incorporated key parameters and assumptions (including probability of default, loss given default, exposure at default, etc.).</p>	<p>Our procedures in relation to impairment assessment of trade and other receivables included:</p> <ul style="list-style-type: none"> <li>– we obtained an understanding of management's internal control and assessment process of the impairment of trade and other receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;</li> <li>– we understood, evaluated and validated, on the sample basis, the Group's relevant controls in relation to the impairment assessment of trade and other receivables; and</li> <li>– in respect of the methods, significant assumptions and data used and judgements made by management:             <ol style="list-style-type: none"> <li>1) we assessed the appropriateness of the ECL provision methodologies adopted by management;</li> <li>2) we tested, on a sample basis, the accuracy of the key data inputs used by management in the impairment assessment such as the aging schedules of trade and other receivables;</li> <li>3) we evaluated the reasonableness of grouping of trade receivables and staging determination for other receivables against their nature and risk characteristics;</li> <li>4) we assessed the significant assumptions applied by management in the estimated cash flows in the separate assessment of trade and other receivables based on information such as financial status and repayment history of the debtors on a sample basis;</li> <li>5) we assessed the reasonableness of the detailed application of the key ECL model parameters and assumptions including probability of default, loss given default, exposure at default by considering the historical default rates and past collection information;</li> </ol> </li> </ul>

**KEY AUDIT MATTERS (CONTINUED)**

<b>Key Audit Matters</b>	<b>How our audit addressed the Key Audit Matters</b>
<p><i>Impairment assessment of trade and other receivables (continued)</i></p> <p>We focused on this area due to the significance of the balance of trade and other receivables and complex estimates and judgements were involved in the assessment of expected credit losses mentioned above.</p>	<p>6) we evaluated the appropriateness of forward looking information applied, such as China's GDP, global GDP, China's CPI and global CPI with reference to market data and our industry knowledge including multiple economic scenarios and parameters;</p> <p>7) we evaluated the results of management's sensitivity analysis of the forward looking information using reasonably possible changes of the relevant key parameters; and</p> <p>8) we tested the mathematical accuracy of the calculations of expected credit loss rates based on the historical loss and forward-looking information, and the expected credit loss provision.</p>

Based on the procedures performed, we found that the estimates and judgements applied by the Group in the impairment assessment of trade and other receivables were supported by the evidence obtained.

## Independent Auditor's Report

## KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p><i>Fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments</i></p>	<p>Our procedures in relation to fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments included:</p>
<p>Refer to Note 3.3, Note 4.2 and Note 26 to the consolidated financial statements.</p>	<ul style="list-style-type: none"> <li>- we obtained an understanding of the management's internal control and assessment process of the fair value measurement and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;</li> </ul>
<p>As at 31 December 2023, the Group's financial assets at fair value through profit or loss amounted to RMB7,049.3 million, of which RMB6,636.9 million of these financial assets were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". Level 3 financial instruments include debt investments in funds, debt investments in bonds, debt and equity investments in unlisted companies and structured deposits.</p>	<ul style="list-style-type: none"> <li>- we examined the relevant legal documents and investment agreements, on a sample basis, and assessed the implications of the key terms as set out in these documents/agreements to the valuation of the respective investments;</li> </ul>
<p>Management engaged an external valuer to assist in determining the fair value of these financial assets. The fair value determination of such financial assets required management to make judgments and estimates, including the appropriateness of the adoption of applicable valuation methods and using various unobservable inputs. Valuation methods used include discounted cash flow model and market approach etc. Significant assumptions adopted by management in the valuation include expected volatility, risk-free interest rate, discount for lack of marketability ("DLOM") and expected rate of return.</p>	<ul style="list-style-type: none"> <li>- we evaluated and validated, on a sample basis, the Group's relevant controls in relation to the fair value measurement of the Level 3 financial instruments;</li> </ul>
<p>We focused on this area due to the significance of the balances of these investments, as well as significant judgments, assumptions and estimations applied by the management in the fair value determination of these financial assets which are subject to high level of inherent risk, including high degree of estimation uncertainty.</p>	<ul style="list-style-type: none"> <li>- we evaluated the external valuer's competence, capability and objectivity by assessing its qualifications, relevant experience and relationship with the Group;</li> <li>- for debt and equity investments in unlisted companies and structured deposits, we involved our internal valuation expert to discuss with management and the external valuer and assess the reasonableness of valuation methods, significant assumptions and inputs used. We assessed and challenged the underlying assumptions, on a sample basis, including expected volatility, risk-free interest rate, DLOM and expected rate of return based on our industry knowledge and market data, such as market interest rates, trading multiples of comparable companies, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentations;</li> </ul>

**KEY AUDIT MATTERS (CONTINUED)**

<b>Key Audit Matters</b>	<b>How our audit addressed the Key Audit Matters</b>
<i>Fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments (continued)</i>	<ul style="list-style-type: none"> <li>– for debt investments in funds, we involved our internal valuation expert to interview the relevant fund managers to obtain an understanding of the accounting policies used by these investee funds as well as the valuation methods and significant assumptions used in determining the net asset value of these investee funds;</li> <li>– for debt investments in bonds, we involved our internal valuation expert to verify the price of public bond in the bank valuation reports on a sample basis;</li> <li>– we tested the mathematical accuracy of the calculation applied in the valuation models and the fair value changes on investments measured at fair value through profit or loss during the year; and</li> <li>– we sent confirmations, on a sample basis, to the investees to confirm the cost, proportion and shares of investments as at the year end date.</li> </ul> <p>Based on the procedures performed, we found that the significant judgments, assumptions and estimations applied in the Group's fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments were supported by the evidence obtained.</p>

**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.

## Independent Auditor's Report

### **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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- 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.
- 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 CHAN Chiu Kong, Edmond.

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 26 March 2024

# Consolidated Income Statement

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Revenue</b>	5(a), 6(b)	<b>3,405,842</b>	3,808,510
Cost of sales	7	<b>(1,905,055)</b>	(1,266,243)
<b>Gross profit</b>		<b>1,500,787</b>	2,542,267
Selling expenses	7	<b>(818,731)</b>	(900,787)
Administrative expenses	7	<b>(1,510,855)</b>	(1,567,739)
Research and development expenses	7	<b>(3,465,766)</b>	(4,014,337)
Net impairment losses on financial assets and contract assets	3.1(b)	<b>(1,835,246)</b>	(1,667,671)
Other income	9	<b>291,500</b>	447,255
Other losses – net	10	<b>(808,244)</b>	(1,367,311)
<b>Operating loss</b>		<b>(6,646,555)</b>	(6,528,323)
Finance income	11	<b>341,977</b>	260,546
Finance cost	11	<b>(146,661)</b>	(55,438)
<b>Finance income – net</b>	11	<b>195,316</b>	205,108
Share of losses of investments accounted for using the equity method	13	<b>(20,813)</b>	(2,357)
Fair value losses of preferred shares	30(c)	<b>(32,110)</b>	(7,240)
<b>Loss before income tax</b>		<b>(6,504,162)</b>	(6,332,812)
Income tax credit	14	<b>9,492</b>	239,822
<b>Loss for the year</b>		<b>(6,494,670)</b>	(6,092,990)
<b>Loss is attributable to:</b>			
Equity holders of the Company		<b>(6,440,159)</b>	(6,044,796)
Non-controlling interests		<b>(54,511)</b>	(48,194)
		<b>(6,494,670)</b>	(6,092,990)
<b>Loss per share for loss attributable to equity holders of the Company</b>			
Basic and diluted loss per share (RMB)	15	<b>(0.20)</b>	(0.19)

The above consolidated income statement should be read in conjunction with the accompanying notes.

## Consolidated Statement of Comprehensive Loss

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Loss for the year</b>		<b>(6,494,670)</b>	(6,092,990)
<b>Other comprehensive income</b>			
<i>Item that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		<b>(516,492)</b>	(1,568,202)
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		<b>734,548</b>	3,516,694
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	30(c)	<b>(3,747)</b>	(3,155)
<b>Other comprehensive income for the year, net of taxes</b>		<b>214,309</b>	1,945,337
<b>Total comprehensive loss for the year</b>		<b>(6,280,361)</b>	(4,147,653)
<b>Total comprehensive loss for the year is attributable to:</b>			
Equity holders of the Company		<b>(6,232,073)</b>	(4,096,716)
Non-controlling interests		<b>(48,288)</b>	(50,937)
		<b>(6,280,361)</b>	(4,147,653)

The above consolidated statement of comprehensive loss should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

		As at 31 December	
	Note	2023 RMB'000	2022 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	7,378,707	6,999,010
Right-of-use assets	18	349,554	315,094
Intangible assets	19	325,675	332,887
Contract assets	6(d)	10,802	22,999
Investments accounted for using the equity method	13	135,235	54,241
Deferred income tax assets	21	725,440	689,697
Restricted cash	27	153,986	271,392
Financial assets at fair value through profit or loss	26	6,527,475	6,676,533
Long-term receivables	25	87,251	357,952
Other non-current assets	20	253,425	183,009
		<b>15,947,550</b>	15,902,814
<b>Current assets</b>			
Inventories	22	506,128	617,110
Contract assets	6(d)	19,785	27,231
Trade, other receivables and prepayments	24	5,159,278	6,071,675
Financial assets at fair value through profit or loss	26	521,805	632,124
Restricted cash	27	210,085	348
Term deposits	27	1,099,898	6,212,878
Cash and cash equivalents	27	9,423,495	7,962,813
		<b>16,940,474</b>	21,524,179
<b>Total assets</b>		<b>32,888,024</b>	37,426,993
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	28	5	5
Other reserves	29	71,666,422	71,248,900
Currency translation reserves		4,127,161	3,915,328
Accumulated losses		(52,634,168)	(46,194,009)
		<b>23,159,420</b>	28,970,224
<b>Non-controlling interests</b>		<b>(3,947)</b>	43,636
<b>Total equity</b>		<b>23,155,473</b>	29,013,860

## Consolidated Balance Sheet

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	34	4,278,686	2,907,153
Lease liabilities	18	145,290	105,228
Deferred income tax liabilities	21	10,383	9,593
Contract liabilities	6(e)	24,650	74,553
Deferred revenue	35	305,664	307,593
Preferred share and other financial liabilities	30	1,675,276	1,395,814
Long-term payables	32(b)	5,294	11,611
Put option liability	33	–	278,584
		<b>6,445,243</b>	5,090,129
<b>Current liabilities</b>			
Borrowings	34	194,429	321,461
Trade and other payables	32(a)	2,262,133	2,472,581
Lease liabilities	18	146,410	183,002
Contract liabilities	6(e)	265,959	207,571
Deferred revenue	35	113,368	120,635
Current income tax liabilities		21,701	17,754
Put option liability	33	283,308	–
		<b>3,287,308</b>	3,323,004
<b>Total liabilities</b>		<b>9,732,551</b>	8,413,133
<b>Total equity and liabilities</b>		<b>32,888,024</b>	37,426,993
<b>Net current assets</b>		<b>13,653,166</b>	18,201,175
<b>Total assets less current liabilities</b>		<b>29,600,716</b>	34,103,989

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 92 to 218 were approved by the Board of Directors on 26 March 2024 and were signed on its behalf.

**Xu Li**  
Director

**Xu Bing**  
Director

# Consolidated Statement of Changes in Equity

	Note	Equity attributable to equity holders of the Company						Non-controlling interests	Total equity
		Share capital	Other reserves	Currency translation reserves	Accumulated losses	Total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<b>As at 1 January 2023</b>		5	71,248,900	3,915,328	(46,194,009)	28,970,224	43,636	29,013,860	
<b>Comprehensive loss</b>									
Loss for the year		-	-	-	(6,440,159)	(6,440,159)	(54,511)	(6,494,670)	
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	30(c)	-	(3,747)	-	-	(3,747)	-	(3,747)	
Exchange differences on translation of foreign operations		-	-	211,833	-	211,833	6,223	218,056	
<b>Total comprehensive loss</b>		-	(3,747)	211,833	(6,440,159)	(6,232,073)	(48,288)	(6,280,361)	
<b>Transactions with equity holders</b>									
Exercise of share options	29	-	100,285	-	-	100,285	-	100,285	
Transactions with non-controlling interests	12(j)	-	(3,011)	-	-	(3,011)	705	(2,306)	
Share-based compensation	8, 29, 31	-	323,995	-	-	323,995	-	323,995	
<b>Total transactions with equity holders</b>		-	421,269	-	-	421,269	705	421,974	
<b>As at 31 December 2023</b>		5	71,666,422	4,127,161	(52,634,168)	23,159,420	(3,947)	23,155,473	

## Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the Company							
	Note	Share	Other	Currency	Accumulated	Total	Non-	Total equity
		capital	reserves	translation	losses	interests		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2022</b>		5	70,077,626	1,964,093	(40,149,213)	31,892,511	94,573	31,987,084
<b>Comprehensive loss</b>								
Loss for the year		-	-	-	(6,044,796)	(6,044,796)	(48,194)	(6,092,990)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	30(c)	-	(3,155)	-	-	(3,155)	-	(3,155)
Exchange differences on translation of foreign operations		-	-	1,951,235	-	1,951,235	(2,743)	1,948,492
<b>Total comprehensive loss</b>		-	(3,155)	1,951,235	(6,044,796)	(4,096,716)	(50,937)	(4,147,653)
<b>Transactions with equity holders</b>								
Exercise of restricted shares and share options	29	-	86,395	-	-	86,395	-	86,395
Exercise of over-allotment option	28(a)	*	692,807	-	-	692,807	-	692,807
Repurchase of ordinary shares	28(b)	(*)	(69,246)	-	-	(69,246)	-	(69,246)
Share-based compensation	8, 29, 31	-	464,473	-	-	464,473	-	464,473
<b>Total transactions with equity holders</b>		-	1,174,429	-	-	1,174,429	-	1,174,429
<b>As at 31 December 2022</b>		5	71,248,900	3,915,328	(46,194,009)	28,970,224	43,636	29,013,860

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

\* represents that the amount is less than RMB1,000 for the year.

# Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Cash flows from operating activities</b>			
Cash used in operations	36(a)	(3,212,329)	(3,073,538)
Income tax paid		(21,931)	(10,945)
<b>Net cash used in operating activities</b>		<b>(3,234,260)</b>	(3,084,483)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,356,449)	(4,890,289)
Purchase of intangible assets		(161,421)	(276,838)
Proceeds from disposal of property, plant and equipment		12,121	4,514
Increase in investments accounted for using the equity method	13	(101,759)	(31,500)
Dividend and interest received from financial assets at fair value through profit and loss	9	12,697	18,307
Acquisition of debt and equity investments	26	(591,971)	(3,465,067)
Disposal of debt and equity investments	26	49,082	386,038
Net decrease/(increase) in investments in term deposits	27	5,098,149	(890,896)
Interest received from banks		356,068	200,961
Acquisition of structured deposits	26	(4,875,000)	(5,763,000)
The intention money paid for purchase of an office property		–	(200,000)
The intention money returned for purchase of an office property		–	200,000
Disposal of structured deposits	26	5,016,856	5,424,590
Loans granted to a related party	38(b)(iv)	–	(15,037)
<b>Net cash generated from/(used in) investing activities</b>		<b>3,458,373</b>	(9,298,217)

## Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	36(b)	1,644,677	2,969,496
Repayments of borrowings	36(b)	(402,068)	(83,300)
Interest paid	36(b)	(130,561)	(43,424)
Principal elements of lease payments	36(b)	(182,017)	(151,177)
Interest elements of lease payments	11, 36(b)	(13,989)	(16,859)
Payment of purchase of non-controlling interests	12(i)	(2,306)	–
Capital injection by limited partners of investment fund controlled by the Group	30(b)	214,571	204,000
Increase in restricted cash for the issuance of bank borrowings	27	(78,641)	(365,425)
Decrease in restricted cash for the issuance of bank borrowings	27	2,937	108,438
Net proceeds from exercise of over-allotment option	28(a)	–	692,807
Payment of the listing expenses which was deducted from equity		–	(2,562)
Repurchase of ordinary shares	28(b)	–	(69,246)
Proceeds from exercise of restricted shares and share options		30,980	86,395
<b>Net cash generated from financing activities</b>		<b>1,083,583</b>	3,329,143
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,307,696</b>	(9,053,557)
Cash and cash equivalents at beginning of year		7,962,813	16,529,506
Effect of foreign exchange rates changes		152,986	486,864
<b>Cash and cash equivalents at end of year</b>		<b>9,423,495</b>	7,962,813

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION

SenseTime Group Inc. (the “Company”) was incorporated in the Cayman Islands on 15 October 2014 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Tricor Services (Cayman Islands) Limited, of Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the “Group”), including the structured entities (collectively, the “Group”), are the sale of advanced artificial intelligence (“AI”) software, sale of AI software platform and related services, sale of software-embedded hardware and related services, AIDC service as well as research and development activities in relation to AI technology mainly in the People’s Republic of China (the “PRC”), Northeast Asia, Southeast Asia and other geographical areas.

The Group is a leading AI software company with customers across a broad spectrum of industries.

The Group did not have ultimate holding company and controlling shareholder since 15 December 2023.

On 30 December 2021, the Company was successful listed on the Main Board of the Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated. These consolidated financial statements were approved for issue by the Board of Directors on 26 March 2024.

## 2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRS Accounting Standards (IFRS) and interpretations issued by IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities which measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement 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 POLICY AND DISCLOSURES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures

#### (a) New and amendments to standards adopted by the Group

A number of new and amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies as a result of adopting these standards except IAS 12 (Amendments).

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2023:

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules

Except for the impact disclosed above in relation to the adoption of amendments to IAS12, there is no material impact on the Group.

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations, and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- (i) right-of-use assets and lease liabilities, and
- (ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments as of 31 December 2022 was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

## 2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures (continued)

#### (b) Amendments to standards not yet adopted

The followings amendments to standards have not come into effect for the financial year beginning 1 January 2023 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial information of the Group.

	Effective for accounting periods beginning on or after
IAS 1 (Amendment) – Classification of Liabilities as Current or Non-current	1 January 2024
IFRS 16 (Amendment) – Leases Liability in a Sale and Leaseback	1 January 2024
IAS 1 (Amendment) – Non-current Liabilities with Covenants	1 January 2024
IFRS 7 and IAS 7 (Amendment) – Supplier Finance Arrangements	1 January 2024
IAS 21 (Amendment) – Lack of Exchangeability	1 January 2025
IFRS 10 and IAS 28 (Amendments) – Sales or Contribution of Assets Between an Investor and Its Associate or Joint Venture	To be determined

#### (c) Change in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) which will be effective from 1 May 2025 (the “Transition Date”). Under the Amendment Ordinance, any accrued benefits attributable to the employer’s mandatory contributions under mandatory provident fund scheme (“MPF Benefits”) of an entity would no longer be eligible to offset against its obligations on long service payment (“LSP”) for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in IAS 19 paragraph 93(b) (the “practical expedient”) to account for the offsettable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” (the “Guidance”) which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a ‘simple type of contributory plans’ to which the practical expedient had been intended to apply.

## 2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures (continued)

#### (c) Change in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong (continued)

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the practical expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with IAS 19 paragraph 93(a). The cumulative effect of recognising these adjustments as of 31 December 2022 or for the year ended was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### (a) Market risk

##### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The Company's functional currency is US Dollar ("USD"). The Company's primary subsidiaries were incorporated in the mainland China, Hong Kong, Japan, Singapore and Middle East, these subsidiaries considered Renminbi ("RMB"), Hongkong Dollar ("HKD"), Japanese Yen ("JPY"), Singapore Dollar ("SGD") and Arab Emir Dirham ("AED") as their functional currency, respectively.

The Group is primarily exposed to changes in HKD/RMB and HKD/USD exchange rates. As at 31 December 2023, if HKD had strengthened/weakened by 5% against RMB/USD with all other variables held constant, the Group's net loss for the year would have been RMB169,437,000 lower/higher and RMB1,379,968,000 higher/lower, respectively (31 December 2022: HKD/RMB and HKD/USD: RMB223,354,000 lower/higher and RMB1,126,109,000 higher/lower) as a result of foreign exchange losses/gains on translation of RMB/USD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables.

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (continued)

(a) **Market risk (continued)**

(ii) **Cash flow and fair value interest rate risk**

Except for cash and cash equivalents, restricted cash, term deposits (Note 27), structured deposits (Note 26(c)) and long-term receivables (Note 25), the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 34. The Group did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arises. In addition to borrowings, the long-term payables and preferred shares issued by a subsidiary expose the Group to fair value interest risk.

As at 31 December 2023, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net loss for the year would have been RMB7,077,000 (31 December 2022: RMB4,693,000) higher/lower as a result of higher/lower interest expenses on floating rate borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

The long-term receivables of the Group expose the Group to fair value interest risk. Please refer to Note 25 for the fair value of long-term receivables.

The fair value of long-term payables of the Group was disclosed in Note 32(b).

The preferred shares issued by a subsidiary and net asset value attributable to limited partners expose the Group to fair value interest rate risk. Please refer to Note 30 for the fair value of these financial liabilities.

(iii) **Price risk**

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified as FVPL (Note 26). The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by senior management of the Group on a case by case basis.

The Group performed sensitivity test to changes in unobservable input in determining the fair value of FVPL. The sensitivity test results are disclosed in Note 3.3(c).

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (continued)

##### (b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, term deposits, structured deposits, as well as notes receivables, trade receivables and contract assets 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.

##### *Risk Management*

To manage this risk, cash and cash equivalents, restricted cash, term deposits and structured deposits are mainly placed with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The credit period granted to the customers is usually around 90 to 270 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the collection history of receivables due from them, to measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and aging. Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

For other financial assets carried at amortised cost (excluding prepayments, input value added tax ("VAT") to be deducted), management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences.

The entity is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (continued)

##### (b) Credit risk (continued)

###### **Impairment of financial assets**

The Group has three types of financial assets that are subject to the expected credit loss model:

- cash and cash equivalents, restricted cash and term deposits;
- trade receivables and contract assets (including notes receivables and long-term receivables);
- other receivables.

##### (i) *Cash and cash equivalents, restricted cash and term deposits*

To manage risk arising from cash and cash equivalents, restricted cash and term deposits, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. 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. Cash and cash equivalents, restricted cash and term deposits are also subject to the impairment requirements of IFRS 9, while the identified impairment loss was immaterial.

##### (ii) *Trade receivables and contract assets (including notes receivables and long-term receivables)*

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets (including notes receivables and long-term receivables) have been grouped based on shared credit risk characteristics and aging.

The expected loss rates are based on the credit rating of counter parties and the payment profiles of sales over a period of each reporting period and probability of default of counter parties on an ongoing basis throughout each reporting 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 China's GDP, global GDP, China's CPI or global CPI to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (continued)

##### (b) Credit risk (continued)

###### ***Impairment of financial assets (continued)***

###### *(ii) Trade receivables and contract assets (including notes receivables and long-term receivables) (continued)*

For details of the analysis, refer to Note 24 for trade receivables (including notes receivables), Note 6(d) for contract assets and Note 25 for long-term receivables.

The Group performed sensitivity test to changes in unobservable input of macroeconomic factors (e.g. China's GDP, global GDP, China's CPI or global CPI) and industry factors (e.g. sales or net profit growth rate) in determining the fair value of trade receivables and contract assets (including notes receivables and long-term receivables). When performing the sensitivity test, management applied an increase or decrease to the factors mentioned above, which represents management's assessment of reasonably possible change to this unobservable input. If factors had added/reduced 5% with all other variables held constant, the loss before income tax for the year ended 31 December 2023 will increase RMB82,410,000 or decrease RMB76,042,000 (for the year ended 31 December 2022: increase RMB92,827,000 or decrease RMB93,318,000).

###### *(iii) Other receivables*

Other receivables mainly include refundable deposits, other receivables from third parties and payments on behalf of customers and loans to related parties. All of the Group's financial assets at amortised cost are measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition as described in Note 24.

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.

## Notes to the Consolidated Financial Statements

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)****3.1 Financial risk factors (continued)****(b) Credit risk (continued)****Impairment of financial assets (continued)***(iii) Other receivables (continued)*

	Trade receivables and contract assets (including notes receivables and long-term receivables) RMB'000	Other receivables RMB'000	Total RMB'000
<b>As at 1 January 2023</b>	<b>(2,639,356)</b>	<b>(370,941)</b>	<b>(3,010,297)</b>
Increase in loss allowance recognised in profit or loss during the year	(1,716,146)	(119,100)	(1,835,246)
Receivables written off during the year as uncollectable	63,887	96,690	160,577
Currency translation differences	(3,248)	(872)	(4,120)
<b>As at 31 December 2023</b>	<b>(4,294,863)</b>	<b>(394,223)</b>	<b>(4,689,086)</b>
<b>As at 1 January 2022</b>	<b>(1,054,656)</b>	<b>(349,615)</b>	<b>(1,404,271)</b>
Increase in loss allowance recognised in profit or loss during the year	(1,624,511)	(43,160)	(1,667,671)
Receivables written off during the year as uncollectable	43,614	26,022	69,636
Currency translation differences	(3,803)	(4,188)	(7,991)
<b>As at 31 December 2022</b>	<b>(2,639,356)</b>	<b>(370,941)</b>	<b>(3,010,297)</b>

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (continued)

##### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2023</b>					
Borrowings	<b>332,026</b>	<b>434,951</b>	<b>1,965,991</b>	<b>2,515,925</b>	<b>5,248,893</b>
Lease liabilities	<b>153,152</b>	<b>100,284</b>	<b>19,683</b>	<b>31,569</b>	<b>304,688</b>
Long-term payables	<b>16,000</b>	<b>5,500</b>	–	–	<b>21,500</b>
Trade and other payables (excluding staff salaries and welfare payables, tax payables and warranty liabilities)	<b>1,766,808</b>	–	–	–	<b>1,766,808</b>
Put option liability	<b>283,308</b>	–	–	–	<b>283,308</b>
	<b>2,551,294</b>	<b>540,735</b>	<b>1,985,674</b>	<b>2,547,494</b>	<b>7,625,197</b>
<b>At 31 December 2022</b>					
Borrowings	423,160	106,177	875,436	2,542,824	3,947,597
Lease liabilities	190,426	91,421	7,812	14,339	303,998
Long-term payables	–	8,000	4,000	–	12,000
Trade and other payables (excluding staff salaries and welfare payables, tax payables and warranty liabilities)	1,812,786	–	–	–	1,812,786
Put option liability	–	278,584	–	–	278,584
	2,426,372	484,182	887,248	2,557,163	6,354,965

The Group recognises preferred share and other financial liabilities issued to investors of the subsidiaries at fair value through profit or loss (Note 30). Accordingly, the liabilities issued to investors are managed on a fair value basis rather than by maturing dates.

## Notes to the Consolidated Financial Statements

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)****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.

The Group monitors capital on basis of gearing ratio. The ratio is calculated as total bank borrowings divided by total equity.

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Total borrowings	4,473,115	3,228,614
Total equity	23,155,456	29,013,860
Gearing ratio	19%	11%

**3.3 Fair value estimation****(a) Fair value hierarchy**

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>As at 31 December 2023</b>				
Assets:				
– Financial assets at FVPL	412,342	–	6,636,938	7,049,280
Liabilities:				
– Preferred share liabilities	–	–	1,144,805	1,144,805
– Other financial liabilities	–	–	530,471	530,471
	–	–	1,675,276	1,675,276
<b>As at 31 December 2022</b>				
Assets:				
– Financial assets at FVPL	631,337	–	6,677,320	7,308,657
Liabilities:				
– Preferred share liabilities	–	–	1,090,277	1,090,277
– Other financial liabilities	–	–	305,537	305,537
	–	–	1,395,814	1,395,814

### **3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **3.3 Fair value estimation (continued)**

##### **(a) Fair value hierarchy (continued)**

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted debt and equity investment.

##### **(b) Valuation techniques used to determine fair values**

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of trade and other receivables, term deposits, restricted cash, and cash and cash equivalents approximated to their carrying amounts. The fair value of long-term receivables was disclosed in Note 25.

The fair value of trade and other payables and current borrowings approximated to their carrying amounts. The fair value of non-current borrowings and long-term payables was disclosed in Note 34 and Note 32(b), respectively.

## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.3 Fair value estimation (continued)

## (c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 31 December 2023:

	Debt investments RMB'000	Equity investments RMB'000	Structured deposits RMB'000	Preferred share issued by a subsidiary RMB'000	Net asset value of investment funds attributable to limited partners RMB'000	Fair value instruments at FVPL RMB'000
<b>At 1 January 2023</b>	<b>5,798,760</b>	<b>246,436</b>	<b>632,124</b>	<b>(1,090,277)</b>	<b>(305,537)</b>	<b>5,281,506</b>
Additions	472,857	97,100	4,875,000	-	(214,571)	5,230,386
Disposals	(5,627)	(6,050)	(5,016,856)	-	-	(5,028,533)
Fair value changes	(555,787)	7,223	31,537	(32,110)	(10,363)	(559,500)
Losses attributable to changes in credit risk recognised in other comprehensive loss	-	-	-	(3,747)	-	(3,747)
Foreign currency translation recorded in other comprehensive loss	56,175	4,046	-	(18,671)	-	41,550
<b>At 31 December 2023</b>	<b>5,766,378</b>	<b>348,755</b>	<b>521,805</b>	<b>(1,144,805)</b>	<b>(530,471)</b>	<b>4,961,662</b>
<b>At 1 January 2022</b>	<b>3,665,678</b>	<b>213,375</b>	<b>272,549</b>	<b>(1,040,267)</b>	<b>(84,349)</b>	<b>3,026,986</b>
Additions	2,802,090	9,750	5,763,000	-	(204,000)	8,370,840
Disposals	(108,892)	-	(5,424,590)	-	-	(5,533,482)
Fair value changes	(750,966)	3,478	21,165	(7,240)	(17,188)	(750,751)
Losses attributable to changes in credit risk recognised in other comprehensive loss	-	-	-	(3,155)	-	(3,155)
Foreign currency translation recorded in other comprehensive loss	190,850	19,833	-	(39,615)	-	171,068
<b>At 31 December 2022</b>	<b>5,798,760</b>	<b>246,436</b>	<b>632,124</b>	<b>(1,090,277)</b>	<b>(305,537)</b>	<b>5,281,506</b>

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.3 Fair value estimation (continued)

##### (c) Fair value measurements using significant unobservable inputs (level 3) (continued)

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary. The Group engaged an independent valuer to assist them on valuation of non-current unlisted debt investments and unlisted equity investments with derivatives.

The following table summarises the quantitative information about the significant unobservable inputs (except the latest financing information of funding companies and listed companies) used in recurring level 3 fair value measurements.

##### At 31 December 2023

Description	Fair Value RMB'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
<b>Assets:</b>				
Debt instruments – Unlisted entities	3,486,248	Expected volatility	35.61%-69.33%	A shift of the expected volatility by +/- 5% results in a (decrease)/ increase in FV of RMB(17,556,000)/ RMB17,521,000
		Risk-free rate	2.05%-4.79%	A shift of the risk-free rate by +/- 5% results in a (decrease)/increase in FV of RMB(3,106,000)/RMB3,110,000
		DLOM	30.00%	A shift of the DLOM by +/- 5% results in a (decrease)/increase in FV of RMB(53,024,000)/RMB52,764,000
Debt instruments – Fund	643,921	Net assets per unit	0.41-3.64	A shift of the net assets per unit by +/- 5% results in an increase/ (decrease) in FV of RMB32,520,000/ RMB(31,194,000)

## Notes to the Consolidated Financial Statements

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)****3.3 Fair value estimation (continued)****(c) Fair value measurements using significant unobservable inputs (level 3) (continued)**

Description	Fair Value RMB'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Debt instruments – Investments in bonds	1,636,209	Expected rate of return	1.11%-3.42%	A change in the expected rate of return by +/- 50 bps would increase/ (decrease) the FV by RMB14,438,000/ RMB(28,820,000)
Equity instruments- unlisted entities	348,755	Expected volatility	31.99%-51.17%	A shift of the expected volatility by +/- 5% results in a decrease/increase in FV of RMB4,000
Structured deposits	521,805	Expected rate of return	1.85%-2.98%	A change in the expected rate of return by 50 bps would increase/decrease the FV by RMB316,000
<b>Liabilities:</b>				
Net asset value of investment funds attributable to limited partners	530,471	Net assets per unit	0.9-1.08	A shift of the net assets per unit by +/- 5% results in an increase/decrease in FV of RMB26,524,000
Preferred share issued by a subsidiary	1,144,805	Risk-free rate	3.85%	A shift of the risk-free rate by +/- 5% results in a change in FV of RMB(428,000)/RMB430,000
		Expected volatility	49.80%	A shift of the expected volatility by +/- 5% results in a change in FV of RMB(1,518,000)/RMB1,552,000

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### 4.1 Impairment assessment of financial assets measured at amortised cost

The impairment provisions for trade and other receivables, contract assets and long-term receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the 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. For details of the key assumptions and inputs used, see Note 3.1(b). Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated income statement.

In assessing forward-looking information, the Group considers different macroeconomic scenarios and weights. The Group regularly monitors and reviews critical macroeconomic assumptions and parameters related to the measurement of expected credit loss, including the economic policies, macroeconomic indicators, industry risks, and changes in customer conditions, etc.

### 4.2 Fair value measurement of financial assets at fair value through profit or loss

The fair value measurement of financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. Details of the assumptions and estimates in determination of the fair value are disclosed in Note 3.3.

### 4.3 Fair value of preferred share liabilities and other financial liabilities

As disclosed in Note 30, the fair value of preferred share liabilities and other financial liabilities at the dates of issue and balance sheet dates were determined based on the valuation performed by management/ an independent valuer, using valuation techniques. The Group uses its judgments to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used Discounted Cash Flow Method ("DCF Method") followed by option pricing models to determine the fair value of preferred share liabilities issued by a subsidiary and attribute net asset value of investment funds to limited partners, which involved the use of significant accounting estimates and judgments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### 4.4 Impairment of non-financial assets, including property, plant and equipment, intangible assets and long-term equity investments

In determining whether non-financial assets, including property, plant and equipment, intangible assets and long-term equity investments are impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

### 4.5 Share-based compensation expenses

The fair value of restricted shares and share options granted are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group. The Group only recognise an expense for those restricted shares and share options expected to vest over the vesting period during which the grantees become unconditionally entitled to those share-based awards. Changes in these estimates and assumptions could have a material effect on determination of the fair value of restricted shares and share options and the amount of such share-based awards vested, which may in turn significantly impact the determination of share-based compensation expenses.

### 4.6 Current and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### 4.7 Scope of consolidation

Consolidation is required only if control exists. The Group controls an investee when it has all the following: (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. Power results from rights that can be straightforward through voting rights or complicated in contractual arrangements. Variable returns normally encompass financial benefits and risks, but in certain cases, they also include operational values specific to the Group. These three factors cannot be considered in isolation by the Group in its assessment of control over an investee. Where the factors of control are not apparent, significant judgement is applied in the assessment, which is based on an overall analysis of all of the relevant facts and circumstances. The Group is required to reassess whether it controls the investee if facts and circumstances indicate a change to one or more of the three factors of control.

## 5 SEGMENT INFORMATION

The Company develops software and hardware products for different industry verticals and use cases based on the same AI infrastructure platform and model training framework. The technologies and nature of the products of different business lines are substantially similar. The executive directors of the Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance did not segregate operating segment financial information and the executive directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

### (a) Revenue by geographical

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in four principal geographical areas of the world. The following table shows the Group's total consolidated revenue by location of the customers for the year ended 31 December 2023:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Mainland China	2,907,390	3,168,880
Northeast Asia	343,040	521,866
Southeast Asia	66,062	21,904
Others*	89,350	95,860
	<b>3,405,842</b>	<b>3,808,510</b>

\* Other geographical areas mainly represented Hong Kong and Middle East.

## Notes to the Consolidated Financial Statements

**5 SEGMENT INFORMATION (CONTINUED)****(b) Non-current assets by geographical**

The total of the non-current assets including property, plant and equipment, right-of-use assets and intangible assets as at 31 December 2023, broken down by the location of the assets, is as follows:

	<b>As at 31 December</b>	
	<b>2023</b> <b>RMB'000</b>	2022 RMB'000
Mainland China	<b>7,900,623</b>	7,498,318
Northeast Asia	<b>72,276</b>	66,301
Southeast Asia	<b>14,437</b>	27,054
Others*	<b>66,600</b>	55,318
	<b>8,053,936</b>	7,646,991

\* Other geographical areas mainly represented Hong Kong and Middle East.

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 executive directors of the Company that make strategic decisions.

## 6 REVENUE

### (a) Information about major customers

There is no major customer which contributed more than 10% of total revenue of the Group for the year ended 31 December 2023 (year ended 31 December 2022: There is one major customer which contributed 15.20% of total revenue).

### (b) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
<b>Revenue</b>		
– recognised point in time	<b>2,823,288</b>	3,543,301
– recognised over time	<b>582,554</b>	265,209
	<b>3,405,842</b>	3,808,510

(c) During the year ended 31 December 2023, the Group determines revenue should be reported on a gross or net basis based on principle/agent assessment and revenue are primarily reported on a gross basis.

### (d) Contract assets

The Group has recognised the following contract assets with customers:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current assets	<b>23,875</b>	28,012
Loss allowance	<b>(4,090)</b>	(781)
	<b>19,785</b>	27,231
Non-current assets	<b>13,035</b>	26,396
Loss allowance	<b>(2,233)</b>	(3,397)
	<b>10,802</b>	22,999
	<b>30,587</b>	50,230

## Notes to the Consolidated Financial Statements

**6 REVENUE (CONTINUED)****(e) Contract liabilities**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
<b>Current</b>		
Deferred service fee income	31,934	50,879
Advances from customers	234,025	156,692
	<b>265,959</b>	207,571
<b>Non-current</b>		
Deferred service fee income	24,650	74,553

The addition of contract liabilities was mainly due to the increase of cash payments made upfront by the Group's customers under sales contract. The following table shows how much of the revenue, which was included in the contract liability balance at the beginning of the year, recognised during the year ended 31 December 2023 relates to carried-forward contract liabilities:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue recognised that were included in the contract liabilities at the beginning of the year	108,720	118,647

**Unsatisfied performance obligations**

The following table shows unsatisfied performance obligations resulting from long-term contracts:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied	56,584	187,190

Management expects that 56% (2022: 28%) of the transaction price allocated to unsatisfied performance obligations as of 31 December 2023 will be recognised as revenue during the next year. The remaining 44% (2022: 72%) will be recognised over one year.

All other contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## **6 REVENUE (CONTINUED)**

### **(f) Accounting policies of revenue recognition**

Revenue is recognised when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if:

- 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 (for example, work in progress) that the customer controls as the asset is created or enhanced; 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.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment. The Group shall present any unconditional rights to consideration separately as a receivable.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

## 6 REVENUE (CONTINUED)

### (f) Accounting policies of revenue recognition (continued)

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is 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.

The revenue is measured at the transaction price agreed under the contract. Amounts disclosed as revenue are net of return, trade allowances and amounts collected on behalf of third parties. In those agreements where the transaction with period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year, revenue is measured at transaction prices adjusted for the time value of money. The variable consideration is estimated by applying the most likely amount method. For sales – or usage – based royalties that are attributable to a license of intellectual property, the amount is recognised at the later of: 1) when the subsequent sale or usage occurs; and 2) the satisfaction or partial satisfaction of the performance obligation to which some or all of the sales – or usage – based royalty has been allocated.

#### **The accounting policy for the Group's principal revenue sources**

##### **(i) Sales of advanced AI software**

The Group uses the models trained on its own platform to develop advanced AI software. The AI software normally includes software platform, software license or plug-and-play software development kits ("SDKs"). In some industries and verticals, the AI software is separately sold, which is a single performance obligation for these contracts. Revenue is recognised at a point in time when AI software is delivered to the customer's designated place, inspected and accepted by the customer because the software has standalone functionality and the customer can use the software as it is available at a point in time. For development and sales of AI software, the Group also provides related maintenance and upgrade services for a specific period (normally 1-3 years after the customer's acceptance) after sale as stipulated in the same contract. These maintenance and upgrade services are provided to maintain and improve the effectiveness of the software and therefore are accounted for as a separate performance obligation. Revenue from provision of maintenance and upgrade services is deferred recognised over the service period. A contract liability is recognised for advances from the customer in which revenue has not yet been recognised.

## **6 REVENUE (CONTINUED)**

### **(f) Accounting policies of revenue recognition (continued)**

#### **The accounting policy for the Group's principal revenue sources (continued)**

##### **(ii) Sales of AI software platform and related services**

AI software platform and related services consist primarily of deployment of AI software, software-embedded hardware and hardware infrastructures, provision of integration services and standard warranty services. The Group delivers AI software platform and related services for projects with cities and business enterprises. These AI software platform and related services are provided through integrating the AI software, hardware infrastructures and services, all of which are highly interdependent and interrelated with each other and represent multiple inputs to a combined output that is transferred to the customer. Accordingly, the AI software platform and related services, i.e. the integrated solution, is accounted for as a single performance obligation. Certain sales contracts contain provision of extended maintenance and upgrade services which are considered as a separate performance obligation.

Revenue is recognised at a point in time when the AI software platform and related services are delivered to the customer's designated place, inspected and accepted by the customer. Certain sales contracts that the Group provides a total solution of which, revenue is recognised 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. Such revenue is recognised based on the progress towards complete satisfaction in the contracts using input method which is determined as the proportion of the costs incurred for the work performed to date relative to the estimated total costs to complete the contract, to the extent that the amount can be measured reliably and its recovery is considered probable.

Input method requires the Group make estimates of costs to complete its projects on an ongoing basis. Significant judgment is required to evaluate assumptions related to these estimates. The effect of revisions to estimates related to the transaction price or costs to complete a project are recorded in the period in which the estimate is revised.

The stand-alone selling price for the performance obligation of the AI software platform and related services and extended maintenance and upgrade services are generally observable directly. The transaction price will be allocated to each performance obligation based on the standalone selling prices.

## 6 REVENUE (CONTINUED)

### (f) Accounting policies of revenue recognition (continued)

#### The accounting policy for the Group's principal revenue sources (continued)

##### (iii) Sales of AI software-embedded hardware

The Group also provides software-embedded in various forms of hardware, ranging from servers to personal devices. These sales contracts generally have a single performance obligation. Revenue is recognised at a point in time when AI software-embedded hardware is delivered to the customer's designated place, inspected and accepted by the customer.

##### (iv) Research and development services

Research and development services consist primarily of the provision of research and development services for healthcare industry customers and automotive industry customers. Revenue is recognised upon the transfer of control, over time or at a point in time, depending on the nature of the arrangements.

##### (v) Cloud services

Cloud services are mainly charged on either a subscription or consumption basis. For cloud service contracts billed based on a fixed amount for a specified service period, revenue is recognised over the subscribed period when the services are delivered to customers. For cloud service provided on a consumption basis, revenue is recognised based on the customer utilisation of the resources.

##### (vi) Gross vs. net determination in revenue recognition

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Group is acting as the principal or an agent in the transactions. If the Group provides significant integration service to the hardware and is responsible for the overall management of the contract, the Group is the principal in the transaction and recognises revenue in the gross amount of consideration to which it is entitled from the customer.

The Group reports the amount received from the customers and the amounts paid to the suppliers related to these transactions on a net basis if the Group is not primarily obligated in a transaction, does not generally bear the inventory risk and does not have the ability to establish the price.

Significant judgements have been made in determining whether the Group acts as a principal or an agent in the sales transactions. Changes in judgments could materially impact the amounts of revenue recognised.

## Notes to the Consolidated Financial Statements

**7 EXPENSES BY NATURE**

The expenses charged to cost of sales, selling expenses, administrative expenses and research and development expenses are analysed below:

	<b>Year ended 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Employee benefit expenses (Note 8)	<b>3,507,229</b>	4,012,452
Hardware costs and project subcontracting service fees	<b>1,537,925</b>	1,118,932
Depreciation and amortisation (Note 17, Note 18 and Note 19)	<b>1,249,924</b>	967,685
Professional service and other consulting fees	<b>634,984</b>	800,666
Marketing, conference and travelling expenses	<b>254,375</b>	247,663
Utilities, property management and administrative expenses	<b>188,564</b>	168,912
Server operation and cloud-based service fees	<b>123,392</b>	250,985
Taxes and surcharges	<b>56,214</b>	29,140
Data labelling fees	<b>53,718</b>	59,895
Research and development tools and consumables	<b>37,305</b>	42,509
Auditor's remuneration		
– Audit services	<b>15,290</b>	15,365
– Non-audit services	<b>698</b>	4,100
Other expenses	<b>40,789</b>	30,802
	<b>7,700,407</b>	7,749,106

## Notes to the Consolidated Financial Statements

**8 EMPLOYEE BENEFIT EXPENSES**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Wages, salaries and bonuses	2,615,677	2,950,032
Contributions to pension plans (a)	237,535	243,874
Housing fund, medical insurance and other social insurance	330,022	354,073
Share-based compensation expenses (Note 31(d))	323,995	464,473
	<b>3,507,229</b>	4,012,452

**(a) Pensions – defined contribution plans**

As stipulated by rules and regulations in mainland China, the Group has participated in state-sponsored defined contribution retirement plans for its employees in mainland China. The Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees. During the year ended 31 December 2023, the Group contributed RMB220,529,000 (2022: RMB233,528,000) to the aforesaid state-sponsored retirement plans.

As stipulated by rules and regulations in other countries and regions, during the year ended 31 December 2023, the Group contributed RMB17,006,000 (2022: RMB10,346,000) to the social insurance scheme of those countries and regions.

During the year ended 31 December 2023, there was no forfeited defined contribution to offset existing contribution under the defined contribution schemes (2022: nil).

## Notes to the Consolidated Financial Statements

**8 EMPLOYEE BENEFIT EXPENSES (CONTINUED)****(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group include no director (2022: nil) during the year ended 31 December 2023. The emoluments payable to the remaining five (2022: five) individuals during the year are as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Wages, salaries and bonuses	20,721	20,247
Pension, housing fund, medical insurance and other social insurance	112	162
Other social security costs, housing benefits and other employee benefits	89	162
Share-based compensation expenses	35,083	74,241
	<b>56,005</b>	<b>94,812</b>

**(c) The emoluments fell within the following bands:**

	Number of individuals	
	2023	2022
Emoluments bands:		
HKD10,500,001 to HKD11,000,000	1	–
HKD11,000,001 to HKD11,500,000	1	–
HKD11,500,001 to HKD12,000,000	1	–
HKD14,000,001 to HKD14,500,000	2	–
HKD15,500,001 to HKD16,000,000	–	1
HKD16,000,001 to HKD16,500,000	–	1
HKD16,500,001 to HKD17,000,000	–	1
HKD28,000,001 to HKD28,500,000	–	1
HKD32,500,001 to HKD33,000,000	–	1

No director or any of the five highest paid employees of the Company waived any emolument during the year ended 31 December 2023 (2022: nil). No emolument was paid by the Group to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2023 (2022: nil).

## Notes to the Consolidated Financial Statements

## 9 OTHER INCOME

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Government grants		
– Financial subsidies (i)	176,674	342,166
– Tax refund (ii)	102,129	86,782
Dividend received	12,697	18,307
	<b>291,500</b>	447,255

- (i) Governments grants received during the year primarily comprised the financial subsidies received from various local government authorities in the mainland China, Hong Kong and other regions. There are no unfulfilled conditions or contingencies relating to these incomes.
- (ii) During the year ended 31 December 2023, the Group sold self-developed software products to its customers. The VAT was collected at a tax rate of 13% starting from April 2019 and the refund-upon-collection policy was applied to self-developed software products which is typically the portion of VAT actually paid that exceeds 3% of the revenue. The Group recorded the refunded VAT as “other income” when it obtained approvals from the local tax authorities and received the refunds.

## 10 OTHER LOSSES – NET

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Fair value losses on financial assets at fair value through profit or loss (Note 26(d))	(724,426)	(885,078)
Changes on net asset value of investment funds attributable to limited partners (Note 30(c))	(10,363)	(17,188)
Donations	(902)	(12,703)
Net foreign exchange losses	(67,838)	(453,432)
Losses on disposal of property, plant and equipment	(4,499)	(1,390)
(Losses)/gains on early termination of leasing contracts	(2,372)	3,296
Others	2,156	(816)
	<b>(808,244)</b>	(1,367,311)

## Notes to the Consolidated Financial Statements

## 11 FINANCE INCOME – NET

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
<b>Finance income</b>		
Interest income	322,502	239,612
Accretion income for long-term receivables	19,475	20,934
<b>Finance income</b>	<b>341,977</b>	260,546
<b>Finance costs</b>		
Interest expenses on bank borrowings	(134,917)	(45,954)
Interest expenses for long-term payables	(219)	(2,068)
Interest and finance charges paid/payable for lease liabilities (Note 18(ii))	(13,989)	(16,859)
	(149,125)	(64,881)
Amount capitalised (a)	2,464	9,443
<b>Finance costs expensed</b>	<b>(146,661)</b>	(55,438)
<b>Finance income – net</b>	<b>195,316</b>	205,108

- (a) The capitalisation rate used to determine the amount of borrowing costs to be capitalised is 3.53% (2022: 3.74%).

## Notes to the Consolidated Financial Statements

## 12 SUBSIDIARIES

The Company's principal subsidiaries (including Consolidated Affiliated Entities) during the year ended 31 December 2023 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country/region of incorporation or registration is also their principal place of business.

Name of entity	Effective interest held		Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
	In terms of %					
	As at 31 December 2023	2022				
<b>Directly held by the Company:</b>						
SenseTime Group Limited	100%	100%	30 October 2014	HKD108,914,958	Sales of software products and provision of related services in Hong Kong	Hong Kong, limited liability company
MobileTime Intelligence Group Inc.	100%	100%	21 January 2020	Nil paid	Holding company in Cayman Islands	Cayman Islands, limited liability company
SenseTime Management Group Limited	100%	100%	30 October 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseMeet Investment Limited ("SenseMeet")	100%	100%	26 September 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseTime MiddleEast Holding Limited	100%	100%	23 July 2019	Nil paid	Holding company in BVI	BVI, limited liability company
SenseEnergy Investment Limited	100%	100%	22 November 2017	USD2	Holding company in Cayman Islands	Cayman Islands, limited liability company
PowerSensors Group Inc.	100%	100%	8 January 2020	Nil paid	Holding company in Cayman Islands	Cayman Islands, limited liability company
SenseForce Investment Limited	100%	100%	23 November 2017	USD1	Holding company in BVI	BVI, limited liability company
SenseSquare Investment Limited	100%	100%	7 January 2021	Nil paid	Holding company in BVI	BVI, limited liability company
<b>Share-based compensation plan vehicles:</b>						
Sense Talent Limited	100%	100%	23 December 2016	*	Holding company in Hong Kong	Hong Kong, limited liability company
SenseTalent Management Limited	100%	100%	1 August 2018	*	Holding company in BVI	BVI, limited liability company

## Notes to the Consolidated Financial Statements

## 12 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held		Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
	In terms of %					
	As at 31 December 2023	2022				
<b>Indirectly held by the Company:</b>						
SenseTime Technology Malaysia Sdn. Bhd.	100%	100%	17 December 2019	MYR18,800,000	Holding company in Malaysia	Malaysia, limited liability company
SenseTime KSA Information Systems Technology	100%	100%	13 November 2019	SAR151,000,000	Holding company in Saudi Arabia	Saudi Arabia, limited liability company
SenseBrain Technology Limited	100%	100%	14 March 2018	USD900,000	Operation Entity in USA	USA, limited liability company
SenseTime International Pte. Ltd.	100%	100%	17 January 2018	USD107,450,000	Sales of software products and provision of related services in Singapore	Singapore, limited liability company
Tetras.AI Hong Kong Co., Limited (formerly named "Sensescene Technology Hong Kong Co., Limited")	55%	55%	08 April 2019	USD34,320,000	Operation Entity in Hong Kong	Hong Kong, limited liability company
SenseTime Macau Technology Limited	100%	100%	14 October 2020	MOP1,000,000	Operation Entity in Macau	Macau, limited liability company
PowerTensors Technology Limited	100%	100%	24 February 2020	Nil paid	Holding company in Hong Kong	Hong Kong, limited liability company
SenseTime Korea Technology Ltd.	100%	100%	28 April 2021	KRW273,000,000	Operation Entity in Korea	Korea, limited liability company
Kabushiki Kaisha SenseTime Japan ("SenseTime Japan")	100%	100%	13 January 2016	JPY8,000,000	Sales of software products and provision of related services in Japan	Japan, limited liability company
SenseTime Middle East Technology Limited	100%	100%	24 October 2019	Nil paid	Holding company in Abu Dhabi	Abu Dhabi, limited liability company
Shenzhen Tetras.AI Technology Co., Ltd. (深圳市慧鯉科技有限公司, formerly named 深圳市商湯智能傳感科技有限公司, "Tetras.AI Shenzhen")	55%	55%	11 July 2019	USD30,000,000	Development and sale of AI sensor technology and system integration technology in PRC	PRC, wholly foreign owned enterprise

## Notes to the Consolidated Financial Statements

## 12 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held		Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
	In terms of %					
	As at 31 December 2023	2022				
<b>Indirectly held by the Company: (continued)</b>						
Beijing SenseTime Technology Development Co., Ltd. (北京市商湯科技開發有限公司, "Beijing SenseTime")	100%	100%	14 November 2014	RMB1,642,065,224	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shenzhen SenseTime Technology Co., Ltd. (深圳市商湯科技有限公司, "Shenzhen SenseTime")	100%	100%	15 May 2015	RMB4,500,136,491	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Zhejiang SenseTime Technology Development Co., Ltd. (浙江商湯科技開發有限公司)	100%	100%	31 August 2017	RMB403,140,000	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shanghai SenseTime Intelligent Technology Co., Ltd. (上海商湯智能科技有限公司, "Shanghai SenseTime")	100%	100%	15 December 2017	RMB15,893,987,520	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Chengdu SenseTime Technology Co., Ltd. (成都商湯科技有限公司)	100%	100%	13 June 2018	RMB239,317,144	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shanghai Lingang SenseAuto Intelligent Technology Co., Ltd. (上海臨港絕影智能科技有限公司 "Shanghai SenseAuto", formerly named 上海商湯臨港智能科技有限公司 "Shanghai Lingang")	100%	100%	11 July 2018	RMB1,493,900,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Chongqing SenseTime Technology Co., Ltd. (重慶商湯科技有限公司)	100%	100%	18 October 2018	RMB14,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shanghai SenseTime Information Technology Co., Ltd. (上海商湯信息科技有限公司)	100%	100%	18 December 2018	RMB71,320,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise

## Notes to the Consolidated Financial Statements

## 12 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held		Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
	In terms of %					
	As at 31 December 2023	2022				
<b>Indirectly held by the Company: (continued)</b>						
Shanghai Notahulu Information Technology Co., Ltd. (上海两个瓢信息科技有限公司, formerly named 上海阡颯信息科技有限公司, "Shanghai Notahulu")	100%	100%	25 February 2019	RMB1,388,090,000	Information transportation, software and information services in PRC	PRC, wholly foreign owned enterprise
Shanghai SenseTime Education Technology Co., Ltd. (上海商湯教育科技有限公司)	100%	100%	5 September 2019	RMB2,050,000	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
SenseTime Dongnan (Fujian) Technology Co., Ltd. (商湯東南(福建)科技有限公司 "Fujian Dongnan") <sup>(i)</sup>	100%	90%	19 April 2019	RMB20,000,000	Wholesale and retail in PRC	PRC, joint venture between foreign invested enterprise and domestic company
Qingdao SenseTime Technology Co., Ltd. (青島商湯科技有限公司)	100%	100%	29 November 2019	USD50,000,000	Sales of software products and provision of related services in PRC	PRC, joint venture between foreign invested enterprise and domestic company
Hainan SenseTime Technology Co., Ltd. (海南商湯科技有限公司)	100%	100%	29 November 2019	RMB33,000,000	Sales of software products and provision of related services in PRC	PRC, joint venture between foreign invested enterprise and domestic company
SenseTime Artificial Intelligent Research Center (商湯人工智能研究中心(深圳)有限公司)	100%	100%	9 January 2020	RMB35,000,000	Research and development of AI technology in PRC	PRC, limited liability company
Shanghai SenseTime Technology Development Co., Ltd. (上海商湯科技開發有限公司, "Shanghai Development") <sup>(i)</sup>	100%	100%	16 January 2020	RMB2,000,000,000	Development of computer vision technology and provision of related services in PRC	PRC, limited liability company
Jiangsu Nanjing SenseTime Intelligent Technology Co., Ltd. (江蘇南京商湯智能科技有限公司)	100%	100%	16 March 2020	RMB45,000,000	Provision of system integration services and software development services in PRC	PRC, limited liability company

## Notes to the Consolidated Financial Statements

## 12 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held		Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
	In terms of %					
	As at 31 December 2023	2022				
<b>Indirectly held by the Company: (continued)</b>						
Shanghai PowerTensors Intelligent Technology Co., Ltd. (上海陣量智能科技有限公司)	100%	100%	6 May 2020	USD27,699,958	Provision of AI technology consulting services and IC design services in PRC	PRC, wholly foreign owned enterprise
Xi'an SenseTime Intelligent Technology Co., Ltd. (西安商湯智能科技有限公司)	100%	100%	22 September 2020	RMB100,000,000	Development of AI platform and provision and sale of software and hardware in PRC	PRC, wholly foreign owned enterprise
Shanghai Zhengrong Technology Co., Ltd. (上海政融科技有限公司)	100%	100%	29 September 2022	RMB65,680,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Hefei SenseTime Intelligent Technology Co., Ltd. (合肥商湯智能科技有限公司)	100%	100%	9 March 2021	RMB200,000,000	Provision of system integration services and software development services in PRC	PRC, wholly foreign owned enterprise
Shanghai Guoxiang Goodwill Investment Management Co., Ltd. (上海國香商譽投資管理有限公司, "Shanghai Guoxiang Goodwill")	100%	100%	8 April 2018	RMB55,000,000	Investment holdings and management in PRC	PRC, limited liability company
Beijing Sweet SugARSoft Technology Co., Ltd. (北京大甜綿白糖科技有限公司)	100%	100%	26 April 2021	RMB5,000,000	Development and sale of software, provision of related services in PRC	PRC, wholly foreign owned enterprise
Shanghai Trisolaran Intelligent Technology Co., Ltd. (上海三體星人智能科技有限公司)	100%	100%	19 May 2021	RMB49,000,000	Provision of advertisement publishing services, development of computer technology and digital culture creativity in PRC	PRC, limited liability company
Nantong SenseTime Technology Co., Ltd. (南通商湯科技有限公司)	100%	100%	17 December 2020	USD30,000,000	Provision of system integration services and software development services in PRC	PRC, wholly foreign owned enterprise

## Notes to the Consolidated Financial Statements

## 12 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held		Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
	In terms of %					
	As at 31 December 2023	2022				
<b>Indirectly held by the Company: (continued)</b>						
Beijing Guoxiang Shangheng Fund Management Co., Ltd. (北京國香商恒私募基金管理有限公司)	100%	100%	31 May 2021	RMB20,000,000	Private equity investments in PRC	PRC, limited liability company
Beijing SugARSoft Intelligent Technology Co., Ltd. (北京綿白糖智能科技有限公司, "Beijing SugARSoft")	100%	100%	2 November 2020	RMB1,000,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Shanghai SenseTime Digital Technology Co., Ltd. (上海商湯數字科技有限公司)	100%	100%	8 March 2022	RMB3,500,000,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Wuhan SenseTime Intelligent Technology Co., Ltd. (武漢商湯智慧科技有限公司)	100%	100%	16 March 2022	USD6,000,000 RMB600,000	Provision of system integration services and software development services in PRC	PRC, limited liability company
Shanghai Lingyipao Catering Management Co., Ltd. (上海另一瓢餐飲管理有限公司)	100%	100%	14 March 2022	RMB10,000,000	Catering services	PRC, limited liability company
Zibo SenseTime Technology Co., Ltd. (濰博商湯科技有限公司)	100%	100%	9 August 2022	USD10,000,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Shanghai Mouxin Technology Co., Ltd. (上海眸信科技有限公司)	100%	100%	17 March 2022	RMB280,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Shanghai Shangchou Technology Co., Ltd. (上海商籌科技有限公司) #	100%	100%	13 September 2022	Nil paid	Development and sale of software, provision of related services in PRC	PRC, limited liability company

## Notes to the Consolidated Financial Statements

## 12 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held		Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
	In terms of %					
	As at 31 December 2023	2022				
<b>Indirectly held by the Company: (continued)</b>						
Shanghai SenseTime Shancui Medical Technology Co., Ltd. (上海商湯善萃醫療科技有限公司)	100%	100%	10 August 2022	RMB119,900,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Shanghai SenseRobot Intelligent Technology Co., Ltd. (上海元羅卜智慧科技有限公司)	100%	N.a.	6 September 2023	RMB40,000,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Beijing SenseAuto Intelligent Connection Technology Co., Ltd (北京絕影智聯科技有限公司)	100%	N.a.	6 December 2023	Nil paid	Development and sale of software, provision of related services in PRC	PRC, limited liability company

\* represents that the amount is less than USD1.

- (i) On 21 June 2023, the Group acquired an additional 10% of the issued shares of Fujian Dongnan for RMB2,306,000. The Group recognised an increase in non-controlling interests of RMB705,000 and a decrease in equity attributable to owners of the parent of RMB3,011,000. The effect on the equity attributable to the owners of Fujian Dongnan during the year is summarised as follows:

	Year ended 31 December 2023 RMB'000
Carrying amount of non-controlling interests acquired	(705)
Consideration paid to non-controlling interests	2,306
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	(3,011)

- (ii) These companies were controlled by the Group through a series of the contractual arrangements signed ("Contractual Arrangements").

## Notes to the Consolidated Financial Statements

**12 SUBSIDIARIES (CONTINUED)**

## (iii) Accounting policies of subsidiaries

## (a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. 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 loss, consolidated statement of changes in equity and consolidated balance sheet respectively.

## (1) Subsidiaries controlled through contractual arrangements

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of certain restricted businesses, in particular, AI data center services, the Group operates its restricted businesses in the PRC through certain PRC operating entities, whose equity interests are held by certain management members of the Group ("Individual Shareholders"). The Group obtained control over certain PRC operating entities via Contractual Arrangements between certain directly or indirectly held subsidiaries of the Company in the PRC, PRC operating entities operating the restricted businesses (the "Consolidated Affiliated Entities") and their respective Individual Shareholders. The Contractual Arrangements, includes exclusive management and operation agreements, exclusive option agreements, equity pledge agreements, entrustment agreements and powers of attorney, and spouse undertakings which enables those directly or indirectly held subsidiaries of the Company and the Group to:

- carry out relevant activities including govern the financial and operating policies of the Consolidated Affiliated Entities;
- exercise Individual Shareholders' voting rights of the Consolidated Affiliated Entities;
- exercise effective financial and operational control over the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the technical and consulting services provided by certain PRC operating entities;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in the Consolidated Affiliated Entities from the Individual Shareholders at a minimum purchase price permitted under the PRC laws and regulations and any proceeds from the transfer and any residual interests in the Consolidated Affiliated Entities shall be remitted to the Group immediately; and
- obtain a pledge over the entire equity interests of the substantial Consolidated Affiliated Entities from their Individual Shareholders as collaterals to secure the payment obligations of all of the substantial Consolidated Affiliated Entities' payments due to the Group and to secure performance of the substantial Consolidated Affiliated Entities' obligation under Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over the Consolidated Affiliated Entities and their respective subsidiaries, receive variable returns from its involvement with the Consolidated Affiliated Entities and their respective subsidiaries and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and their respective subsidiaries. Therefore, the Company is considered to control the Consolidated Affiliated Entities and their respective subsidiaries. Consequently, the Company regards the Consolidated Affiliated Entities and their respective subsidiaries as consolidated entities of the Company under IFRSs. The Group has included the financial positions and results of the Consolidated Affiliated Entities in the consolidated financial statements.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and their respective subsidiaries and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities and their respective subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

## Notes to the Consolidated Financial Statements

**13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

The amounts of investments accounted for using the equity method recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Associates	19,664	20,428
Joint ventures	115,571	33,813
	<b>135,235</b>	54,241

The movements for investments in associates and joint ventures during the year ended 31 December 2023 are as below:

	Associates RMB'000	Joint ventures RMB'000	Total RMB'000
<b>At 1 January 2023</b>	<b>20,428</b>	<b>33,813</b>	<b>54,241</b>
Additions	6,000	95,759	101,759
Share of loss	(6,764)	(14,049)	(20,813)
Currency translation differences	–	48	48
<b>At 31 December 2023</b>	<b>19,664</b>	<b>115,571</b>	<b>135,235</b>
<b>At 1 January 2022</b>	22,490	4,440	26,930
Additions	–	31,500	31,500
Share of gain/(loss)	38	(2,395)	(2,357)
Impairment loss	(2,100)	–	(2,100)
Currency translation differences	–	268	268
<b>At 31 December 2022</b>	<b>20,428</b>	<b>33,813</b>	<b>54,241</b>

The associates and joint ventures of the Group have been accounted by using the equity method based on the financial information of the associates and joint ventures prepared under the accounting policies consistent with the Group.

## Notes to the Consolidated Financial Statements

**13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**

The associates and joint ventures are all private companies and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interests in associates and joint ventures.

The aggregated carrying amount of these individually immaterial associates and joint ventures and the Group's shares during the year ended 31 December 2023 are as below:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
<b>Associates</b>		
Aggregate carrying amount	19,664	20,428
Aggregate amounts of the Group's share of (loss)/gain from operations	(6,764)	38
<b>Joint Ventures</b>		
Aggregate carrying amount	115,571	33,813
Aggregate amounts of the Group's share of loss from operations	(14,049)	(2,395)

## Notes to the Consolidated Financial Statements

**14 INCOME TAX CREDIT**

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.

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 and associates and joint ventures 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 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 recognised 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 realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group 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 realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## **14 INCOME TAX CREDIT (CONTINUED)**

### **(i) Cayman Islands**

The Company was redomiciled in the Cayman Islands in 2014 as an exempted company with limited liability, and is exempted from Cayman Islands income tax under the current tax laws of the Cayman Islands. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

### **(ii) British Virgin Islands**

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

### **(iii) Hong Kong**

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the year ended 31 December 2023 (2022: 16.5%).

### **(iv) Singapore**

Singapore income tax rate is 17%. A concessionary rate of 5% was granted by Singapore Economic Development Board for a period of 5 years starting from 1 January 2019 for income derived from qualifying activities. No Singapore profits tax was provided for as there was no estimated assessable profit that was subject to Singapore profits tax for the year ended 31 December 2023 (2022: 17%, 5%).

### **(v) Japan**

Enterprises incorporated in Japan are subject to income tax rate at the state level of 23.2% for the year ended 31 December 2023 (2022: 23.2%).

### **(vi) Malaysia**

Malaysia income tax rate is 24% for the year ended 31 December 2023 (2022: 24%). In the case that the paid-up capital is Malaysian Ringgit ("MYR") 2.5 million or less, and the gross income from business is not more than MYR50 million, the income tax rate on the first MYR0.6 million chargeable income is 17% and the part in excess of MYR0.6 million is 24%. (2022:17%,24%)

### **(vii) Saudi Arabia**

Enterprises incorporated in Saudi Arabia are subject to income tax rate of 20% for the year ended 31 December 2023 (2022: 20%).

## Notes to the Consolidated Financial Statements

**14 INCOME TAX CREDIT (CONTINUED)****(viii) PRC corporate income tax (“CIT”)**

The income tax provision of the Group in respect of its operations in the mainland China was subject to statutory tax rate of 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

Beijing SenseTime, Shenzhen SenseTime, Shanghai SenseTime, SenseTime Development, Tetras.AI Shenzhen and Shanghai SenseAuto were qualified as “High and New Technology Enterprises” (“HNTes”) under the relevant PRC laws and regulations. Accordingly, these entities were entitled to a preferential income tax rate of 15% in 2023. This status is subject to a requirement that Beijing SenseTime, Shenzhen SenseTime, Shanghai SenseTime, SenseTime Development, Tetras.AI Shenzhen and Shanghai SenseAuto reapply for HNTes status every three years.

Shenzhen SenseTime, SenseTime Development, Tetras.AI Shenzhen and Shanghai SenseAuto were registered in such special zones and were entitled to a preferential income tax rate of 15% by the local government.

**(ix) PRC Withholding Tax (“WHT”)**

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the year ended 31 December 2023, no deferred income tax liability on WHT was accrued as at the end of each reporting period because the subsidiaries of the Group were accumulated losses making in these periods (2022: nil).

The Group shall be subject to withholding tax in respect of the taxable income derived from the provision of technical services between the subsidiaries across the countries, the applicable tax rate is 25% applied with a deemed profit rate according to the PRC tax regulation.

	<b>Year ended 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Current income tax	<b>(25,878)</b>	(22,714)
Deferred income tax (Note 21)	<b>35,370</b>	262,536
Income tax credit	<b>9,492</b>	239,822

## Notes to the Consolidated Financial Statements

**14 INCOME TAX CREDIT (CONTINUED)****(ix) PRC Withholding Tax (“WHT”) (continued)**

The tax on the Group’s loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	<b>Year ended 31 December</b>	
	<b>2023</b> <b>RMB’000</b>	2022 RMB’000
Loss before tax	<b>(6,504,162)</b>	(6,332,812)
Tax calculated at statutory tax rates applicable to each group entity	<b>1,012,381</b>	998,577
Tax effects of:		
Super deduction for research and development expenses (a)	<b>216,850</b>	218,342
Income not subject to tax	–	25,357
Associates and joint ventures’ results reported net of tax	<b>(4,006)</b>	(368)
Expenses not deductible for tax purpose (b)	<b>(49,940)</b>	(177,044)
Tax losses for which no deferred income tax asset was recognised (c)	<b>(722,622)</b>	(564,294)
Other temporary difference for which no deferred income tax asset was recognised	<b>(140,006)</b>	(164,624)
Accrued withholding tax	<b>(27,241)</b>	(15,806)
Reversal of previously recognised deferred tax assets for tax losses and temporary differences	<b>(276,439)</b>	(76,739)
Others	<b>515</b>	(3,579)
Tax credit	<b>9,492</b>	239,822

## 14 INCOME TAX CREDIT (CONTINUED)

### (ix) PRC Withholding Tax (“WHT”) (continued)

The Group has operation mainly in Mainland China, Hong Kong and Japan. 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. Hong Kong has announced that it plans to implement the Global Minimum Tax and Hong Kong Domestic Minimum Top-up Tax starting from 2025 onwards but it is still under public consultation with the expectation that draft legislation will be published in the second half of 2024. Japan has released the 2023 tax reform proposals on 16 December 2022 that it plans to implement the global minimum corporate tax based on Pillar Two. The Income Inclusion Rule(IIR) would apply to fiscal years beginning on or after April 1, 2024. The implementation date for the Under-Taxed Payments Rule(UTPR) and the Domestic Minimum Top-up Tax(DMTT) has not yet been set, but it is expected that they may begin to apply to income years beginning on or after 1 April 2025.

Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax exposure. The Group applies the exception 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 November 2023.

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.

### (a) Super deduction for research and development expenses

According to the relevant laws and regulations promulgated by the State Taxation Administration of the PRC, for the period from 1 January 2022 to 30 September 2022, enterprises engaging in qualified research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year; for the period from 1 October 2022 to 31 December 2022, enterprises engaging in qualified research and development activities are entitled to claim 200% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year; for the period from 1 January 2023 to 31 December 2023, enterprises engaging in qualified research and development activities are entitled to claim 200% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”).

**14 INCOME TAX CREDIT (CONTINUED)****(ix) PRC Withholding Tax (“WHT”) (continued)****(b) Expenses not deductible for tax purpose**

Expenses not deductible for tax purpose include share base payment expenses, business entertainment expenses exceeding threshold, employee commercial insurance expenses, non-deductible donations etc.

**(c) Tax losses for which no deferred income tax assets was recognised**

The Group only recognised deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2023, the Group did not recognise deferred income tax assets of RMB2,360,896,000 (2022: RMB1,357,648,000). The expiration dates of unused tax losses for which no deferred tax asset has been recognised are as follows:

	<b>Year ended 31 December</b>	
	<b>2023</b> <b>RMB'000</b>	2022 RMB'000
2024	<b>87,797</b>	87,797
2025	<b>182,591</b>	339,949
2026	<b>614,929</b>	919,258
2027	<b>1,153,087</b>	1,940,533
2028	<b>1,787,016</b>	416,029
2029	<b>1,207,191</b>	963,974
2030	<b>1,211,519</b>	688,746
2031	<b>1,365,475</b>	587,216
2032	<b>2,322,636</b>	841,191
2033	<b>2,158,600</b>	–
Indefinitely	<b>1,384,363</b>	911,467
	<b>13,475,204</b>	7,696,160

## Notes to the Consolidated Financial Statements

**15 LOSS PER SHARE****Basic**

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

	Year ended 31 December	
	2023	2022
Loss attributable to equity holders of the Company (RMB'000)	<b>(6,440,159)</b>	(6,044,796)
Weighted average number of ordinary shares in issue (thousand)	<b>32,222,681</b>	31,932,411
Basic loss per share (expressed in RMB per share)	<b>(0.20)</b>	(0.19)

**Diluted**

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: preferred shares issued by a subsidiary of the Company, restricted share units ("RSUs") and share options. As the Group incurred losses for the year ended 31 December 2023, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the year ended 31 December 2023 is the same as basic loss per share of the respective year (2022: same as basic loss per share of the respective year).

**16 DIVIDENDS**

No dividend had been declared or paid by the Company during the year ended 31 December 2023 (2022: nil).

## Notes to the Consolidated Financial Statements

## 17 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities <sup>(a)</sup>	Property improvement	Large-scale electronic equipment	Computers and related equipment	Office equipment and furniture	Transportation equipment and vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2023</b>									
Cost	4,561,346	236,224	2,733,558	603,069	61,054	56,438	34,945	439,678	8,726,312
Accumulated depreciation	(146,898)	(192,468)	(961,027)	(372,693)	(23,577)	(25,149)	(5,490)	-	(1,727,302)
<b>Net book amount</b>	<b>4,414,448</b>	<b>43,756</b>	<b>1,772,531</b>	<b>230,376</b>	<b>37,477</b>	<b>31,289</b>	<b>29,455</b>	<b>439,678</b>	<b>6,999,010</b>
<b>Year ended 31 December 2023</b>									
Opening net book amount	4,414,448	43,756	1,772,531	230,376	37,477	31,289	29,455	439,678	6,999,010
Additions	119	1,439	1,042,455	122,917	18,077	1,463	7,015	105,331	1,298,816
Internal transfer	6,525	174,319	231,812	180	9	5,522	-	(418,367)	-
Disposals	-	(14)	(2,933)	(6,671)	(1,651)	(1,079)	(4,626)	-	(16,974)
Depreciation charge	(130,252)	(59,428)	(560,833)	(121,101)	(12,522)	(11,669)	(4,358)	-	(900,163)
Currency translation differences	(775)	98	200	(418)	(325)	(232)	(555)	25	(1,982)
<b>Closing net book amount</b>	<b>4,290,065</b>	<b>160,170</b>	<b>2,483,232</b>	<b>225,283</b>	<b>41,065</b>	<b>25,294</b>	<b>26,931</b>	<b>126,667</b>	<b>7,378,707</b>
<b>At 31 December 2023</b>									
Cost	4,567,174	412,066	3,986,353	702,503	75,904	60,317	36,727	126,667	9,967,711
Accumulated depreciation	(277,109)	(251,896)	(1,503,121)	(477,220)	(34,839)	(35,023)	(9,796)	-	(2,589,004)
<b>Net book amount</b>	<b>4,290,065</b>	<b>160,170</b>	<b>2,483,232</b>	<b>225,283</b>	<b>41,065</b>	<b>25,294</b>	<b>26,931</b>	<b>126,667</b>	<b>7,378,707</b>
<b>At 1 January 2022</b>									
Cost	974,306	216,957	1,476,998	424,198	42,977	44,509	19,451	805,856	4,005,252
Accumulated depreciation	(89,710)	(149,972)	(559,384)	(263,372)	(15,234)	(15,011)	(3,306)	-	(1,095,989)
<b>Net book amount</b>	<b>884,596</b>	<b>66,985</b>	<b>917,614</b>	<b>160,826</b>	<b>27,743</b>	<b>29,498</b>	<b>16,145</b>	<b>805,856</b>	<b>2,909,263</b>
<b>Year ended 31 December 2022</b>									
Opening net book amount	884,596	66,985	917,614	160,826	27,743	29,498	16,145	805,856	2,909,263
Additions	3,267,334	8,209	952,362	187,851	18,260	8,416	8,373	290,359	4,741,164
Internal transfer	321,781	10,315	305,575	2,587	804	3,947	10,108	(655,117)	-
Disposals	(1,446)	(77)	(985)	(554)	(439)	(2)	(1,043)	(1,358)	(5,904)
Depreciation charge	(56,751)	(42,496)	(403,305)	(120,129)	(8,623)	(10,217)	(3,370)	-	(644,891)
Currency translation differences	(1,066)	820	1,270	(205)	(268)	(353)	(758)	(62)	(622)
<b>Closing net book amount</b>	<b>4,414,448</b>	<b>43,756</b>	<b>1,772,531</b>	<b>230,376</b>	<b>37,477</b>	<b>31,289</b>	<b>29,455</b>	<b>439,678</b>	<b>6,999,010</b>
<b>At 31 December 2022</b>									
Cost	4,561,346	236,224	2,733,558	603,069	61,054	56,438	34,945	439,678	8,726,312
Accumulated depreciation	(146,898)	(192,468)	(961,027)	(372,693)	(23,577)	(25,149)	(5,490)	-	(1,727,302)
<b>Net book amount</b>	<b>4,414,448</b>	<b>43,756</b>	<b>1,772,531</b>	<b>230,376</b>	<b>37,477</b>	<b>31,289</b>	<b>29,455</b>	<b>439,678</b>	<b>6,999,010</b>

## Notes to the Consolidated Financial Statements

**17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

- (a) As at 31 December 2023, certain buildings with carrying amount of RMB4,272,828,000 (31 December 2022: RMB4,376,326,000) were pledged as collaterals for the Group's borrowings (Note 34).
- (b) Depreciation charges were expensed off in the following categories in the consolidated income statements:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
– Cost of sales	184,580	39,409
– Selling expenses	20,263	20,338
– Administrative expenses	191,724	126,389
– Research and development expenses	503,596	458,755
	<b>900,163</b>	644,891

**(c) Impairment assessment for property, plant and equipment, right-of-use assets and intangible assets**

According to IAS 36 “Impairment of assets”, when any indicators of impairment are identified, property, plant and equipment are reviewed for impairment based on each cash generating unit (“CGU”). The CGU defined of the Group is an individual entity. As at 31 December 2023, certain CGUs of the Group continue to incur net losses as the Group was still in the stage of expanding its business and operations in the rapidly growing AI software market, and are continuously investing in research and development. The Group considered these CGUs had impairment indicators and therefore performed impairment test on them.

For the purpose of impairment review, the carrying amount of these CGUs were compared to the corresponding recoverable amount, which were based predominantly on value-in-use. Value-in-use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year to six-year period. Management considers the length of the forecast period is appropriate because it generally takes longer for an AI technology company to reach a stable growth state, compared to companies in other industries, especially considering the fact that the AI technology industry in China is an emerging industry with fast growth in the coming years and the Group is still in the stage of expanding its business and operations in the rapidly growing AI software market. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. Management engaged an independent external valuer to assess the recoverable amount of each of the CGUs respectively and leveraged management's extensive experiences in the AI industry and provided forecast based on past performance and their expectation of future business plans and market developments. As a result, no impairment loss on these CGUs is required to be recognised for the year ended 31 December 2023 (2022: nil).

**17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(c) Impairment assessment for property, plant and equipment, right-of-use assets and intangible assets (continued)**

The following table sets out the key assumptions adopted by management in the impairment assessment:

	<b>As at 31 December</b>	
	<b>2023</b>	2022
Gross margin rate (%)	<b>37% to 99%</b>	45% to 97%
Annual revenue growth rate (%)	<b>2% to 68%</b>	0% to 151%
Pre-tax discount rate (%)	<b>17% to 19%</b>	16% to 19%

The budgeted gross margin rate and budgeted annual revenue growth rate used in the impairment testing were determined by management based on past performance and its expectation for market development. Discount rates reflect market assessments of the time value and the specific risks relating to the industry. These estimates and judgments may be affected by unexpected changes in the future market or economic conditions. The directors of the Company have considered the reasonably possible changes to the key assumptions as adopted in the impairment assessments and considered will not result in any impairment charge to be recognised.

## Notes to the Consolidated Financial Statements

**17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(d) Accounting policies of property, plant and equipment**

Property, plant and equipment is 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item 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 derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of comprehensive loss during the financial period in which they are incurred.

Construction in progress mainly represents property improvements under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of property improvements, the shorter lease term as follows:

Buildings and facilities	20–45 years
Property improvement	Shorter of remaining lease period or estimated useful life
Large-scale electronic equipment	5–10 years
Computer and related equipment	3 years
Office equipment and furniture	5 years
Transportation equipment and vehicles	4 years
Other equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other – losses – net" in the consolidated income statement.

## 18 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets includes leased buildings and land use rights.

### (i) Amounts recognised in the consolidated balance sheets

The consolidated balance sheets show the following amounts relating to leases:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
<b>Right-of-use assets</b>		
Leased buildings	286,390	250,577
Land use right (a)	63,164	64,517
	<b>349,554</b>	315,094
<b>Lease liabilities</b>		
Current	146,410	183,002
Non-current	145,290	105,228
	<b>291,700</b>	288,230

- (a) As at 31 December 2023, certain land use right with carrying amount of RMB63,164,000 (31 December 2022: RMB64,517,000) was pledged as collaterals for the Group's borrowings (Note 34).

### (ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
<b>Amortisation charge of right-of-use assets</b>		
Leased buildings	163,794	183,820
Land use right	1,353	1,353
	<b>165,147</b>	185,173
Interest expense (included in finance income – net)	<b>13,989</b>	16,859

The total cash outflows for leases for the year ended 31 December 2023 was RMB289,341,000 (2022: RMB209,182,000).

## Notes to the Consolidated Financial Statements

**18 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)**

(iii) The movement in right-of-use assets in the consolidated balance sheet are as follows:

	Leased buildings RMB'000	Land use right RMB'000	Total RMB'000
<b>Year ended 31 December 2023</b>			
Opening net book amount	250,577	64,517	315,094
Additions	231,804	–	231,804
Early termination of leasing contracts	(31,469)	–	(31,469)
Depreciation charge	(163,794)	(1,353)	(165,147)
Currency translation differences	(728)	–	(728)
<b>Closing net book amount</b>	<b>286,390</b>	<b>63,164</b>	<b>349,554</b>
<b>As at 31 December 2023</b>			
Cost	759,484	67,674	827,158
Accumulated depreciation	(473,094)	(4,510)	(477,604)
<b>Net book amount</b>	<b>286,390</b>	<b>63,164</b>	<b>349,554</b>
<b>Year ended 31 December 2022</b>			
Opening net book amount	366,294	65,870	432,164
Additions	118,825	–	118,825
Early termination of leasing contracts	(44,688)	–	(44,688)
Depreciation charge	(183,820)	(1,353)	(185,173)
Currency translation differences	(6,034)	–	(6,034)
<b>Closing net book amount</b>	<b>250,577</b>	<b>64,517</b>	<b>315,094</b>
<b>As at 31 December 2022</b>			
Cost	700,324	67,674	767,998
Accumulated depreciation	(449,747)	(3,157)	(452,904)
<b>Net book amount</b>	<b>250,577</b>	<b>64,517</b>	<b>315,094</b>

**18 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)****(iii) The movement in right-of-use assets in the consolidated balance sheet are as follows: (continued)**

Amortisation charges were expensed off in the following categories in the consolidated income statements:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost of sales	3,225	–
Selling expenses	2,511	1,100
Administrative expenses	153,406	178,841
Research and development expenses	6,005	5,232
	<b>165,147</b>	185,173

During the year ended 31 December 2023, no impairment loss is required to be recognised on right-of-use assets (Note 17(c)) (2022: nil).

**(iv) The Group's leasing activities and how these are accounted for:**

The Group leases various offices buildings and land use right. Rental contracts are made for fixed periods of 2 years to 50 years with no extension options. 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.

Leases are recognised 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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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.

## 18 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

### (iv) The Group's leasing activities and how these are accounted for: (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 payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- any residual value guarantees provided to the lessor by the Group, a party related to the Group or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, 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;
- 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.

## 18 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

### (iv) The Group's leasing activities and how these are accounted for: (continued)

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal 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.

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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised 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. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income 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 recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated balance sheet based on their nature.

## Notes to the Consolidated Financial Statements

## 19 INTANGIBLE ASSETS

	Patents RMB'000	Trademarks RMB'000	Computer software RMB'000	Licensed intellectual properties RMB'000	Total RMB'000
<b>As at 1 January 2023</b>					
Cost	72,236	22	492,927	43,169	608,354
Accumulated amortisation	(69,191)	(16)	(193,672)	(12,588)	(275,467)
<b>Net book amount</b>	<b>3,045</b>	<b>6</b>	<b>299,255</b>	<b>30,581</b>	<b>332,887</b>
<b>Year ended 31 December 2023</b>					
Opening net book amount	3,045	6	299,255	30,581	332,887
Additions	–	–	177,207	–	177,207
Amortisation charge	(3,051)	(2)	(170,769)	(10,792)	(184,614)
Currency translation differences	6	–	189	–	195
<b>Closing net book amount</b>	<b>–</b>	<b>4</b>	<b>305,882</b>	<b>19,789</b>	<b>325,675</b>
<b>As at 31 December 2023</b>					
Cost	73,096	22	663,218	43,169	779,505
Accumulated amortisation	(73,096)	(18)	(357,336)	(23,380)	(453,830)
<b>Net book amount</b>	<b>–</b>	<b>4</b>	<b>305,882</b>	<b>19,789</b>	<b>325,675</b>
<b>As at 1 January 2022</b>					
Cost	67,191	22	246,048	43,169	356,430
Accumulated amortisation	(49,482)	(14)	(80,550)	(1,798)	(131,844)
<b>Net book amount</b>	<b>17,709</b>	<b>8</b>	<b>165,498</b>	<b>41,371</b>	<b>224,586</b>
<b>Year ended 31 December 2022</b>					
Opening net book amount	17,709	8	165,498	41,371	224,586
Additions	–	–	241,561	–	241,561
Amortisation charge	(15,348)	(2)	(111,481)	(10,790)	(137,621)
Currency translation differences	684	–	3,677	–	4,361
<b>Closing net book amount</b>	<b>3,045</b>	<b>6</b>	<b>299,255</b>	<b>30,581</b>	<b>332,887</b>
<b>As at 31 December 2022</b>					
Cost	72,236	22	492,927	43,169	608,354
Accumulated amortisation	(69,191)	(16)	(193,672)	(12,588)	(275,467)
<b>Net book amount</b>	<b>3,045</b>	<b>6</b>	<b>299,255</b>	<b>30,581</b>	<b>332,887</b>

## 19 INTANGIBLE ASSETS (CONTINUED)

Amortisation charges were expensed off in the following categories in the consolidated income statements:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost of sales	367	–
Selling expenses	2,087	2,726
Administrative expenses	71,751	31,286
Research and development expenses	110,409	103,609
	<b>184,614</b>	137,621

During the year ended 31 December 2023, no impairment loss is required to be recognised on intangible assets (Note 17(c)) (2022: nil).

### (a) Research and development expenditure

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

No research and development expenditures were capitalised during the year ended 31 December 2023 (2022:nil).

## Notes to the Consolidated Financial Statements

**19 INTANGIBLE ASSETS (CONTINUED)****(b) Patents**

Separately acquired patents are shown at historical cost. They are amortised using the straight-line method over their estimated finite useful life of 5 years and are subsequently carried at cost less accumulated amortisation and impairment losses.

**(c) Trademarks**

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 years respectively.

**(d) Computer software**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over the estimated useful lives of 2–3 years.

**(e) Licensed intellectual properties**

Licensed intellectual properties are stated at historical cost less accumulated amortisation and accumulated impairment losses. Fixed minimum payments and warrant grant to licensor are capitalised as intangible asset when the Group obtains control of the licensed intellectual properties. The Group also pays variable fee to licensor based on sharing percentage of revenue from the licensed intellectual properties, which is recorded in profit or loss as incurred. The historical costs of licensed intellectual properties are measured at the present values of the fixed minimum payments and the fair value of warrant when the Group obtains control of the respective licensed intellectual properties.

**(f) Useful life**

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

Patents	5 years
Trademarks	10 years
Computer software	2-3 years
Licensed intellectual properties	4 years

When determining the useful life, the Directors has taken into the account the (i) estimated period that can bring economic benefits to the Group; (ii) the useful life estimated by the comparable companies in the market.

**20 OTHER NON-CURRENT ASSETS**

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Advance payment for purchase of property, plant and equipment and intangible assets	<b>253,425</b>	183,009

**21 DEFERRED INCOME TAX**

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	<b>463,038</b>	304,099
– to be recovered after more than 12 months	<b>301,465</b>	418,414
Offset by deferred income tax liabilities	<b>(39,063)</b>	(32,816)
Net deferred income tax assets	<b>725,440</b>	689,697
Deferred income tax liabilities:		
– to be recovered after more than 12 months	<b>(49,446)</b>	(42,409)
Offset by deferred income tax assets	<b>39,063</b>	32,816
Net deferred income tax liabilities	<b>(10,383)</b>	(9,593)

## Notes to the Consolidated Financial Statements

**21 DEFERRED INCOME TAX (CONTINUED)**

The gross movements on the deferred income tax account is as follows:

Deferred income tax assets	Tax losses	Impairment	Unrealised	Fair value	Lease	Others	Total
	carried forward	provision on financial assets		changes on financial assets carried at FVPL			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2023</b>	<b>369,846</b>	<b>293,267</b>	<b>1,825</b>	<b>1,918</b>	<b>33,806</b>	<b>21,851</b>	<b>722,513</b>
Credit/(charge) to the consolidated income statement	(120,098)	167,449	(1,319)	(1,443)	4,218	(6,400)	42,407
Currency translation differences	(402)	(40)	-	-	-	25	(417)
<b>At 31 December 2023</b>	<b>249,346</b>	<b>460,676</b>	<b>506</b>	<b>475</b>	<b>38,024</b>	<b>15,476</b>	<b>764,503</b>
<b>At 1 January 2022</b>	310,191	115,135	12,227	1,392	44,140	17,411	500,496
Credit/(charge) to the consolidated income statement	56,165	177,962	(10,402)	526	(10,334)	4,415	218,332
Currency translation differences	3,490	170	-	-	-	25	3,685
<b>At 31 December 2022</b>	<b>369,846</b>	<b>293,267</b>	<b>1,825</b>	<b>1,918</b>	<b>33,806</b>	<b>21,851</b>	<b>722,513</b>

Deferred income tax liabilities	Fair value	Right-of-use	Others	Total
	changes on financial assets carried at FVPL			
	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2023</b>	<b>(9,593)</b>	<b>(32,816)</b>	-	<b>(42,409)</b>
Credit/(charge) to the consolidated income statement	(790)	(6,247)	-	(7,037)
<b>At 31 December 2023</b>	<b>(10,383)</b>	<b>(39,063)</b>	-	<b>(49,446)</b>
<b>At 1 January 2022</b>	(43,291)	(43,297)	(25)	(86,613)
Credit to the consolidated income statement	33,698	10,481	25	44,204
<b>At 31 December 2022</b>	<b>(9,593)</b>	<b>(32,816)</b>	-	<b>(42,409)</b>

## Notes to the Consolidated Financial Statements

**22 INVENTORIES**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Purchased hardware and components	296,348	362,830
Contract fulfilment cost	223,719	296,889
	520,067	659,719
Less: provision	(13,939)	(42,609)
	506,128	617,110

The provision for impairment of inventories recorded as cost of sales during the year ended 31 December 2023 were RMB26,835,000 (2022: RMB53,127,000).

Inventories with carrying amount of RMB19,081,000 were recorded as selling expenses during the year ended 31 December 2023 for marketing and promotion purpose (2022: RMB38,373,000).

**23 FINANCIAL INSTRUMENTS BY CATEGORY**

The Group holds the following financial instruments:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
<b>Financial assets:</b>		
Financial assets at amortised cost:		
– Financial assets included in trade and other receivables and notes receivables (Note 24)	3,900,777	5,460,541
– Long-term receivables (Note 25)	87,251	357,952
– Restricted cash (Note 27)	364,071	271,740
– Term deposits (Note 27)	1,099,898	6,212,878
– Cash and cash equivalents (Note 27)	9,423,495	7,962,813
Financial assets at fair value through profit or loss (Note 26)	7,049,280	7,308,657
	21,924,772	27,574,581

## Notes to the Consolidated Financial Statements

**23 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost:		
– Borrowings (Note 34)	<b>4,473,115</b>	3,228,614
– Lease liabilities (Note 18)	<b>291,700</b>	288,230
– Long-term payables (Note 32(b))	<b>5,294</b>	11,611
– Trade and other payables (excluding staff salaries and welfare payables, tax payables and warranty liabilities) (Note 32)	<b>1,782,808</b>	1,812,786
– Put option liability (Note 33)	<b>283,308</b>	278,584
Financial liabilities at fair value through profit or loss:		
– Preferred share liabilities (Note 30(a))	<b>1,144,805</b>	1,090,277
– Other financial liabilities (Note 30(b))	<b>530,471</b>	305,537
	<b>8,511,501</b>	7,015,639

## Notes to the Consolidated Financial Statements

**24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS**

	<b>As at 31 December</b>	
	<b>2023</b> <b>RMB'000</b>	2022 RMB'000
Notes receivables (i)	<b>62,236</b>	80,673
Provision for impairment	<b>(49,021)</b>	(49,031)
	<b>13,215</b>	31,642
Trade receivables (ii)		
– Due from related parties (Note 38(c)(i))	<b>2,992</b>	47,405
– Due from third parties	<b>7,909,027</b>	7,748,873
Gross trade receivables	<b>7,912,019</b>	7,796,278
Provision for impairment	<b>(4,191,392)</b>	(2,578,516)
	<b>3,720,627</b>	5,217,762
Other receivables (iii)		
– Refundable deposits (a)	<b>46,639</b>	63,407
– Loans to related parties (b) (Note 38(c)(ii))	<b>666</b>	15,959
– Payments on behalf of customers(c)	<b>438,988</b>	429,475
– Others (d)	<b>74,865</b>	73,237
Gross other receivables	<b>561,158</b>	582,078
Provision for impairment (e)	<b>(394,223)</b>	(370,941)
	<b>166,935</b>	211,137
Prepayments	<b>578,734</b>	107,587
Input VAT to be deducted	<b>679,767</b>	503,547
<b>Total trade, other receivables and prepayments</b>	<b>5,159,278</b>	6,071,675

As at 31 December 2023, the fair value of trade and other receivables of the Group, except for the prepayments and input VAT to be deducted which are not financial assets, approximated their carrying amounts.

## Notes to the Consolidated Financial Statements

**24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)**

The carrying amounts of the Group's notes receivables, trade, other receivables, prepayments and input VAT to be deducted, excluding provision for impairment, are denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB	9,182,932	8,514,755
USD	282,200	107,890
SGD	102,307	139,142
MYR	80,080	13,394
HKD	77,060	230,942
JPY	37,902	5,583
SAR	22,795	53,778
Others	8,638	4,679
	<b>9,793,914</b>	9,070,163

**(i) Notes receivables**

The aging analysis of the notes receivables based on date of revenue recognition is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Bank's notes receivables		
– Up to 6 months	13,236	31,673
Commercial notes receivables		
– 6 months to 1 year	–	–
– Over 1 year	49,000	49,000
	<b>62,236</b>	80,673

**24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)****(ii) Trade receivables**

The credit terms given to trade customers are determined on an individual basis with normal credit period mainly around 90 to 270 days. The aging analysis of the trade receivables based on date of revenue recognition is as follows:

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Up to 6 months	<b>1,039,742</b>	1,995,560
6 months to 1 year	<b>242,863</b>	746,068
1 to 2 years	<b>1,891,876</b>	3,244,937
2 to 3 years	<b>3,195,901</b>	1,179,960
More than 3 years	<b>1,541,637</b>	629,753
	<b>7,912,019</b>	7,796,278

Due to the short-term nature of the current receivables, their carrying amounts are considered to be approximately the same as their fair values.

The Group does not hold any collateral as security over these debtors.

## Notes to the Consolidated Financial Statements

**24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)****(ii) Trade receivables (continued)****Impairment and risk exposure**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. On the basis as described in Note 3.1(b), the loss allowance for trade receivables as at 31 December 2023 are determined as follows:

As at 31 December 2023, the loss allowance of individually impaired trade receivables is determined as follows:

<b>Individual</b>	<b>Trade receivables RMB'000</b>	<b>Expected credit loss rate %</b>	<b>Loss allowance RMB'000</b>	<b>Reason</b>
Trade receivables	<b>959,677</b>	<b>69.18%</b>	<b>(663,922)</b>	<b>The likelihood of recovery</b>

As at 31 December 2023, the loss allowance of collectively impaired trade receivables is determined as follows:

<b>At 31 December 2023</b>	<b>Up to 6 months</b>	<b>6 months to 1 year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>3 to 4 years</b>	<b>Over 4 years</b>	<b>Total</b>
Expected credit loss rate	<b>14.53%</b>	<b>27.90%</b>	<b>43.18%</b>	<b>58.38%</b>	<b>75.54%</b>	<b>100.00%</b>	<b>N.A.</b>
Gross carrying amount – trade receivables (RMB'000)	<b>1,039,635</b>	<b>242,753</b>	<b>1,715,868</b>	<b>2,804,371</b>	<b>895,657</b>	<b>254,058</b>	<b>6,952,342</b>
Loss allowance (RMB'000)	<b>(151,044)</b>	<b>(67,720)</b>	<b>(740,980)</b>	<b>(1,637,059)</b>	<b>(676,609)</b>	<b>(254,058)</b>	<b>(3,527,470)</b>

**24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)****(ii) Trade receivables (continued)****Impairment and risk exposure (continued)**

As at 31 December 2022, the loss allowance of individually impaired trade receivables is determined as follows:

Individual	Trade receivables RMB'000	Expected credit loss rate %	Loss allowance RMB'000	Reason
Trade receivables	579,695	18.02%	(104,489)	The likelihood of recovery

As at 31 December 2022, the loss allowance of collectively impaired trade receivables is determined as follows:

At 31 December 2022	Up to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Total
Expected credit loss rate	11.21%	22.62%	37.40%	53.31%	76.55%	100.00%	N.A.
Gross carrying amount – trade receivables (RMB'000)	1,994,466	657,758	2,996,192	977,549	557,577	33,041	7,216,583
Loss allowance (RMB'000)	(223,548)	(148,785)	(1,120,672)	(521,129)	(426,852)	(33,041)	(2,474,027)

## 24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

### (iii) Other receivables

#### (a) Refundable deposits

Refundable deposits consist primarily of security deposits for rental and projects.

#### (b) Loans to related parties

The loans to related parties represent the loans granted to related parties for their general business operations by the Group (Note 38(c)(ii)). These loans were repayable on demand.

#### (c) Payments on behalf of customers

Payments on behalf of customers represent receivables arising from the sales transactions the Group acting as an agent. As discussed in Note 6(f)(vi), the Group assessed whether revenue should be reported on a gross or net basis for each sales transaction. For certain sales transactions where the Group acts as agent during the year ended 31 December 2023, revenue is recorded on a net basis and the receivables arising from these transactions were recorded in other receivables.

#### (d) Others

Others primarily include staff advance and receivables due from staff for the exercise of restricted shares and share options.

#### (e) Impairment and risk exposure

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 experiences incorporating forward-looking information. Impairment on other receivables is measured as either 12-month expected credit losses 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.

## 24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

### (iii) Other receivables (continued)

#### (e) Impairment and risk exposure (continued)

ECL model for other receivables, as summarised below:

- The other receivables that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis;
- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis;
- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis; and
- Under Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortised cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfer between stage 1 and stage 2 or 3 due to other receivables experiencing significant increases (or decrease) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised, as well as releases for other receivables derecognised in the period; and
- Other receivables derecognised and write-offs of allowance related to assets that were written off during the period.

The Group considers customers as follow:

- 'Stage 1' – Customers who have a low risk of default and a strong capacity to meet contractual cash flows;
- 'Stage 2' – Customers whose repayments are due past but with reasonable expectation of recovery; and
- 'Stage 3' – Customers whose repayments are due past and with low reasonable expectation of recovery.

## Notes to the Consolidated Financial Statements

**24 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)****(iii) Other receivables (continued)****(e) Impairment and risk exposure (continued)****Loss allowance**

The following tables explain the changes in the loss allowance for other receivables between the beginning and the end of the year:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month</b>	<b>Lifetime</b>	<b>Lifetime</b>	<b>Total</b>
	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>	
	RMB'000	RMB'000	RMB'000	RMB'000
Gross carrying amount as of 31 December 2023	<b>171,883</b>	–	<b>389,275</b>	<b>561,158</b>
Loss allowance as of 31 December 2023	<b>(4,948)</b>	–	<b>(389,275)</b>	<b>(394,223)</b>
Expected credit loss rate	<b>2.88%</b>	–	<b>100.00%</b>	<b>N.A.</b>
Gross carrying amount as of 31 December 2022	194,734	–	387,344	582,078
Loss allowance as of 31 December 2022	(14,394)	–	(356,547)	(370,941)
Expected credit loss rate	7.39%	–	92.05%	N.A.

**(iv) Accounting policies of trade and other receivables**

Trade receivables are amounts due from customers for software and hardware sold or services performed 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 and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 24 for further information about the Group's accounting for trade and other receivables and Note 3.1(b) for a description of the Group's impairment policies.

## Notes to the Consolidated Financial Statements

**25 LONG-TERM RECEIVABLES**

Long-term receivables represented: (1) the receivables due for settlement by instalments, which are generally between 1 to 5 years; (2) the refundable deposits with maturity date over 1 year. Long-term receivables contain significant financing components. Accordingly, these receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method. The portion due for settlement within 1 year is reclassified to trade receivables. The balance of long-term receivables were analysed in the following table.

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Payment by instalment sales contract	313,808	583,243
Less: due within one year	(230,200)	(284,821)
	83,608	298,422
Refundable deposits due after one year	51,770	67,161
Less: provision for impairment	(48,127)	(7,631)
	87,251	357,952

The fair value of long-term receivables as at 31 December 2023 is RMB89,342,000 (2022: RMB367,662,000).

The aging analysis of the payment by instalment sales contract based on date of revenue recognition is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Up to 6 months	–	2,310
6 months to 1 year	–	160,630
1 to 2 years	83,608	133,092
More than 2 years	–	2,390
	83,608	298,422

**Impairment and risk exposure**

All of long-term receivables are denominated in RMB. As a result, there is no exposure to foreign currency risk.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for payment by instalment sales contract. On the basis as described in Note 3.1, the loss allowance for payment by instalment sales contract as at 31 December 2023 are determined as follows:

## Notes to the Consolidated Financial Statements

**25 LONG-TERM RECEIVABLES (CONTINUED)****Impairment and risk exposure (continued)**

As at 31 December 2023, the loss allowance of individually impaired payment by instalment sales contract is determined as follows:

	Trade receivables RMB'000	Expected credit loss rate %	Loss allowance RMB'000	Reason
Payment by instalment sales contract	83,608	55.22%	(46,165)	The likelihood of recovery

As at 31 December 2022, the loss allowance of individually impaired payment by instalment sales contract is determined as follows:

	Trade receivables RMB'000	Expected credit loss rate %	Loss allowance RMB'000	Reason
Payment by instalment sales contract	298,422	1.67%	(4,995)	The likelihood of recovery

The Group applies the three-stage approach to measuring expected credit losses for refundable deposits with maturity date over 1 year.

As at 31 December 2023, the loss allowance of impaired refundable deposits with maturity date over 1 year is determined as follows:

	Stage 1 12-month ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Gross carrying amount as of 31 December 2023	51,770	–	–	51,770
Loss allowance as of 31 December 2023	(1,962)	–	–	(1,962)
Expected credit loss rate	3.79%	–	–	N.A.

As at 31 December 2022, the loss allowance of impaired refundable deposits with maturity date over 1 year is determined as follows:

	Stage 1 12-month ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Gross carrying amount as of 31 December 2022	67,161	–	–	67,161
Loss allowance as of 31 December 2022	(2,636)	–	–	(2,636)
Expected credit loss rate	3.92%	–	–	N.A.

## 26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classified the following financial assets at fair value through profit or loss (FVPL):

- Debt investments that do not qualify for measurement at either amortised cost or FVOCI;
- Equity investments that are held for trading; and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
<b>Non-current assets</b>		
Debt investments (a)		
– Unlisted	<b>3,486,248</b>	3,690,089
– Investments in bonds	<b>1,636,209</b>	1,523,159
– Fund	<b>643,921</b>	585,512
Equity investments (b)		
– Listed	<b>412,342</b>	631,337
– Unlisted	<b>348,755</b>	246,436
	<b>6,527,475</b>	6,676,533
<b>Current assets</b>		
Structured deposits (c)	<b>521,805</b>	632,124
	<b>7,049,280</b>	7,308,657

## Notes to the Consolidated Financial Statements

**26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)****(a) Debt investments**

The movement of the debt investments is analysed as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At beginning of the year	5,798,760	3,665,678
Additions	472,857	2,802,090
Disposals	(5,627)	(108,892)
Fair value changes	(555,787)	(750,966)
Currency translation differences	56,175	190,850
At end of the year	5,766,378	5,798,760

The Group made investments in various industry companies in the form of convertible redeemable preferred share, ordinary shares with preferential rights and convertible loans. The Group has the right to require and demand the investees to redeem all of the investments held by the Group at guaranteed predetermined amount upon redemption events which are out of control of the investees. Hence these investments are accounted for as debt instruments and are measured as financial assets at fair value through profit or loss. In addition, the Group also made investments in certain investment funds as a limited partner, these investments were included in debt investments, depending on the investment contract terms. The fair values of the unlisted debt investments are measured using a valuation technique with unobservable inputs. The major assumptions used in the valuation refer to Note 3.3(c).

**26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)****(b) Equity investments**

The movement of the equity investments is analysed as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At beginning of the year	877,773	645,292
Additions	122,088	662,977
Disposals	(43,455)	(277,146)
Fair value changes	(200,176)	(155,277)
Currency translation differences	4,867	1,927
At end of the year	761,097	877,773

The fair values of the listed securities are determined based on the closing price quoted in active markets. The fair values of the unlisted securities are measured using a valuation technique with unobservable inputs. The major assumptions used in the valuation refer to Note 3.3(c).

**(c) Structured deposits**

Structured deposits represented the wealth management products issued by reputable banks in mainland China or in Hong Kong. The wealth management products were non-principal protected with maturity of less than 1 year.

The movement of the wealth management products is analysed as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At beginning of the year	632,124	272,549
Additions	4,875,000	5,763,000
Disposals	(5,016,856)	(5,424,590)
Fair value changes	31,537	21,165
At end of the year	521,805	632,124

## 26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

### (d) Amounts recognised in the consolidated income statement

During the year ended 31 December 2023, the following (losses)/gains were recognised in the consolidated income statement:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Fair value (losses)/gains on investments in:		
Debt investments	(555,787)	(750,966)
Equity investments	(200,176)	(155,277)
Structured deposits	31,537	21,165
	(724,426)	(885,078)

### (e) Risk exposure and fair value measurements

Information about the Group's exposure to financial risk and information about the methods and assumptions used in determining fair value are set out in Note 3.3.

### (f) Accounting policies of financial assets at fair value through profit or loss

#### (i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), 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 OCI. 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 ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

## 26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

### (f) Accounting policies of financial assets at fair value through profit or loss (continued)

#### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the 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 ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL 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 recognised directly in profit or loss and presented in "other losses – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.
- **FVOCI:** 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 FVOCI. 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 recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised 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) – net" and impairment losses are presented as separate line item in the consolidated income statement.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other losses – net in the period in which it arises.

## 26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

### (f) Accounting policies of financial assets at fair value through profit or loss (continued)

#### (iii) Measurement (continued)

##### *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 recognised in profit or loss as "other income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other losses – net" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### (iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on 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 recognised from initial recognition of the receivables.

## 27 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS

### (a) Cash and cash equivalents

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Cash at banks and in hand	10,887,464	14,447,431
Less: restricted cash (b)	(364,071)	(271,740)
Less: term deposits with initial term of over three months (c)	(1,099,898)	(6,212,878)
Cash and cash equivalents	9,423,495	7,962,813

## 27 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS (CONTINUED)

### (b) Restricted cash

	As at 31 December	
	2023 RMB'000	2022 RMB'000
<b>Non-current</b>		
Security deposit (Note 34)	153,986	271,392
<b>Current</b>		
Security deposit (Note 34)	169,998	348
Performance security	40,087	–
	<b>364,071</b>	271,740

- (c) Term deposits were deposits with initial terms of over three months and term deposits with maturity date over 1 year were disclosed in non-current assets. As at 31 December 2023, all term deposits' maturity dates are within 1 year. The carrying amount of the term deposits with initial terms of over three months approximately to their fair value as at 31 December 2023.

### (d) Cash and cash equivalents are denominated in:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
– RMB	5,055,565	5,213,627
– USD	3,729,986	2,225,547
– HKD	226,399	166,451
– SAR	208,991	238,286
– AED	144,585	15,930
– JPY	34,263	16,655
– SGD	12,729	52,216
– MYR	4,915	17,551
– Korea Won (“KRW”)	4,552	7,356
– Macau Pataca (“MOP”)	959	1,312
– New Taipei Dollar (“NTD”)	438	3,976
– Others	113	3,906
	<b>9,423,495</b>	7,962,813

## Notes to the Consolidated Financial Statements

**27 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS  
(CONTINUED)****(d) Cash and cash equivalents are denominated in: (continued)**

Restricted cash is denominated in:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
– USD	323,984	271,740
– RMB	36,263	–
– SAR	3,824	–
	<b>364,071</b>	271,740

Term deposit is denominated in:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
– RMB	1,017,403	–
– USD	82,495	6,212,878
	<b>1,099,898</b>	6,212,878

## 28 SHARE CAPITAL

### Authorised:

	Number of ordinary shares	Number of preferred shares
<b>At 1 January 2022, 2023 and 31 December 2022, 2023</b>	<b>2,000,000,000,000</b>	<b>–</b>

### Issued:

	Note	Number of shares	Share capital RMB'000
<b>At 1 January 2023 and 31 December 2023</b>	(c)	<b>33,468,925,000</b>	<b>5</b>
<b>At 1 January 2022</b>		33,282,400,000	5
Exercise of over-allotment option	(a)	225,000,000	*
Repurchase of ordinary shares	(b)	(38,475,000)	*
<b>At 31 December 2022</b>		<b>33,468,925,000</b>	<b>5</b>

\* represents that the amount is less than RMB1,000 for the year.

- (a) On 26 January 2022, the over-allotment option of an aggregate of 225,000,000 new Class B ordinary shares has been fully exercised by the underwriters of the global offering. This led to an increase of share capital and other reserves by RMB36 and RMB692,807,000, respectively.
- (b) On 19 July 2022, a total of 6,700,000 class B ordinary shares had been repurchased by the Company with a consideration of RMB12,405,000. The repurchased shares were cancelled on 19 September 2022. During the period from 16 September 2022 to 26 September 2022, a total of 31,775,000 class B ordinary shares had been repurchased by the Company with a consideration of RMB56,841,000. The repurchased shares were cancelled on 30 December 2022. The share repurchases led to a decrease of share capital and other reserves by RMB7 and RMB69,246,000, respectively.

## Notes to the Consolidated Financial Statements

**28 SHARE CAPITAL (CONTINUED)**

(c) The ordinary shares of the Company represented two classes as follows:

	<b>As at 31 December 2023 Number of shares</b>	As at 31 December 2022 Number of shares
Class A ordinary shares*	<b>7,520,115,072</b>	7,520,115,072
Class B ordinary shares	<b>25,948,809,928</b>	25,948,809,928
	<b>33,468,925,000</b>	33,468,925,000

\* The weighted voting rights of the 6,906,080,602 Class A ordinary shares of the Group held by Professor Tang Xiao'ou (湯曉鷗教授, "Prof. Tang") through Amind Inc. has ceased as a result of the passing of Prof. Tang on 15 December 2023. The 6,906,080,602 Class A ordinary shares is expected to be converted into Class B ordinary shares of the Company on a one-to-one basis.

During the year ended 31 December 2022, 8,644,928 Class A ordinary shares were converted into Class B ordinary shares on a one-to-one ratio.

## Notes to the Consolidated Financial Statements

## 29 OTHER RESERVES

	Shares held for share award scheme RMB'000	Share premium RMB'000	Share-based compensation expenses RMB'000	Other comprehensive income reserve RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2023</b>	-	71,317,758	632,166	(3,155)	(697,869)	71,248,900
Share-based compensation expenses (Note 8)	-	-	323,995	-	-	323,995
Treasury shares issued to employees (a)	-	422,740	(322,455)	-	-	100,285
Transactions with non-controlling interests	-	-	-	-	(3,011)	(3,011)
Changes in credit risk for financial liabilities designated as at fair value through profit or loss (Note 30)	-	-	-	(3,747)	-	(3,747)
<b>As at 31 December 2023</b>	-	71,740,498	633,706	(6,902)	(700,880)	71,666,422
<b>At 1 January 2022</b>	*	70,155,916	619,579	-	(697,869)	70,077,626
Share-based compensation expenses (Note 8)	-	-	464,473	-	-	464,473
Treasury shares issued to employees (a)	*	538,281	(451,886)	-	-	86,395
Exercise of over-allotment option (Note 28(a))	-	692,807	-	-	-	692,807
Repurchase of ordinary shares (Note 28(b))	-	(69,246)	-	-	-	(69,246)
Changes in credit risk for financial liabilities designated as at fair value through profit or loss (Note 30)	*	-	-	(3,155)	-	(3,155)
<b>As at 31 December 2022</b>	-	71,317,758	632,166	(3,155)	(697,869)	71,248,900

\* represents that the amount is less than RMB1,000 for the year.

- (a) Unvested shares held by the SenseTalent Management Limited are disclosed as treasury shares and deducted from equity attributable to the Company's equity holders. As at 31 December, 2023, 1,044,605,000 treasury shares in SenseTalent Management Limited have not been issued to employee. (31 December, 2022: 1,333,099,000).

## Notes to the Consolidated Financial Statements

**30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES**

As at 31 December 2023, the preferred share and other financial liabilities included:

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Preferred share liabilities issued by a subsidiary (a)	<b>1,144,805</b>	1,090,277
Net asset value of investment funds attributable to limited partners (b)	<b>530,471</b>	305,537
<b>Total preferred share and other financial liabilities</b>	<b>1,675,276</b>	1,395,814
Including:		
Current portion	–	–
Non-current portion	<b>1,675,276</b>	1,395,814
	<b>1,675,276</b>	1,395,814

**(a) Preferred share liabilities issued by a subsidiary**

On 22 September 2021, SenseMeet and a sovereign wealth fund of the Government of Saudi Arabia (“Fund A”) signed a joint venture agreement to set up SenseTime MEA Ltd. (formerly named “SenseWonder Technology Limited”, “SenseTime MEA”). 51 ordinary shares and 49 convertible preferred shares were issued to SenseMeet and Fund A respectively. The consideration for subscription of preferred shares by Fund A shall be paid in two tranches, first tranche consideration amounted to USD155,000,000 and second tranche amounted to USD52,000,000 when certain conditions are satisfied. No more consideration was received during the year ended 31 December 2023. Pursuant to the agreement, Fund A was also granted a put option to require SenseMeet to acquire all its preferred shares if 1) cannot complete an initial public offering or share sale by the seventh anniversary of the closing date; 2) SenseMeet undergoing a change of control. As at 31 December 2023, the preferred share liabilities were disclosed in non-current liability as the directors of the Company considered these events would not be occurred by the end of next year. The preferred shares issued to Fund A has dividends and conversion rights. Fund A has a preferential dividend rate of eight percent (8%) upon liquidation event or an exercise of its put option. Accordingly, the investment by Fund A to SenseTime MEA are recognised as preferred share liability at FVPL.

The Company has performed assessment on the fair value of the preferred share issued by a subsidiary (the “Target Company”). The 100% equity value of the Target Company has been determined by using the DCF Method under the income approach. The fair value of the preferred share issued by the Target Company was determined using the equity allocation method.

### 30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

#### (a) Preferred share liabilities issued by a subsidiary (continued)

For the year ended 31 December 2023, key valuation assumptions used to determine the fair value of preferred share issued by a subsidiary are as follows:

	As at 31 December	
	2023	2022
Expected volatility	49.80%	47.00%
Risk-free rate	3.85%	3.98%

The Company performed sensitivity test to changes in unobservable inputs in determining the fair value of the preferred share issued by a subsidiary. The changes in unobservable inputs including expected volatility and risk-free rate will result in a significantly higher or lower fair value measurement. The increase in the fair value of the preferred share issued by a subsidiary would increase the loss of fair value change in the consolidated income statement. When performing the sensitivity test, management applied an increase or decrease to each unobservable input, which represents management's assessment of reasonably possible change to these unobservable inputs.

If the Company's key valuation assumptions used to determine the fair value of the preferred share issued by a subsidiary had added/reduced 5% with all other variables held constant, the loss before income tax for the year ended 31 December 2023, the estimated fair value changes from carrying amount listed in below table (assuming the change of key factors would not have significant impact on fair value change attributable to credit risk):

	As at 31 December 2023		As at 31 December 2022	
	Expected volatility RMB'000	Risk-free rate RMB'000	Expected volatility RMB'000	Risk-free rate RMB'000
<b>Impact on the loss before income tax due to estimated fair value changes of the preferred share issued by a subsidiary</b>				
Add 5%	(1,518)	(428)	(9,843)	(3,210)
Reduce 5%	1,552	430	10,035	3,228

#### (i) Accounting policies of preferred share liabilities issued by a subsidiary

The subsidiary designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as "finance costs" in profit or loss. Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognised in profit or loss, except for the portion attributable to own credit risk change that should be charged to other comprehensive income.

The preferred shares were classified as non-current liabilities unless the preferred shares holders can demand the subsidiary to redeem the preferred shares within 12 months after the end of the reporting period.

## Notes to the Consolidated Financial Statements

**30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)****(b) Net asset value of investment funds attributable to limited partners**

In August 2021, the Group established Beijing Guoxiang Shangheng Equity Investment Fund Partnership (limited partnership), as a limited partnership with an 8-year life, together with ten limited partners for strategic investment. As at 31 December 2023, the Group has already received RMB388,071,000 (31 December 2022: RMB274,000,000) capital injection from these limited partners.

In February 2022, the Group established Shenzhen Chengsi Consulting Management Partnership (limited partnership), together with a limited partner for strategic investment. As at 31 December 2023, the Group has already received RMB15,000,000 (31 December 2022: RMB15,000,000) capital injection from the limited partner.

In November 2023, the Group established Jiujiang Youdi Technology Industry Investment Partnership (limited Partnership), together with a limited partner for strategic investment. As at 31 December 2023, the Group has already received RMB100,500,000 capital injection from the limited partner.

**(i) Accounting policies of net asset value of investment funds attributable to limited partners**

The Group designated the net asset value of investment funds attributable to limited partners as financial liabilities at fair value through profit or loss.

The investments made by limited partners to the funds controlled by the Group with fixed investment period is designated as financial liabilities at fair value through profit or loss.

**(c) Losses on the changes in fair value of preferred share and other financial liabilities**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Losses recognised on:		
Changes in fair value of preferred share issued by a subsidiary	32,110	7,240
Losses attributable to changes in credit risk of above financial instruments recognised in other comprehensive loss	3,747	3,155
Changes on net asset value of investment funds attributable to limited partners	10,363	17,188

### 31 SHARE-BASED COMPENSATION PLANS

Starting from 2016, the board of directors approved the restricted shares plan (“Pre-IPO RSU Plan”), share option plan and Post-IPO restricted shares plan (“2022 RSU Scheme”) for the purpose of providing incentive for certain directors, senior management members and employees contributing to the Group.

#### (a) RSU

On 2 November 2016, 68,697 RSUs were granted to employees and the exercise price of all RSUs was HKD0.7789 per share. Total number of RSUs was 686,970,000 after share split with a ratio of 1:10,000 and the exercise price was HKD0.00007789 on 9 April 2018. As at 31 December 2023, all RSUs were exercised.

As at 31 December 2023, no grant has been made to the 2022 RSU Scheme participants under the 2022 RSU Scheme, and no class B ordinary shares had been issued for the purposes of the 2022 RSU Scheme.

#### (b) Share option plan

From 2016 to 2023, the Company adopted several batches of the share option plans. The terms and conditions during the year ended 31 December 2023 and 2022 were as follows:

<b>Date of options granted</b>	<b>Number of shares</b>	<b>Vesting periods</b>	<b>Contractual life of options</b>
1 January 2022	116,779,795	2-4 years	7 years
1 July 2022	10,107,491	3-4 years	7 years
13 September 2022	224,725,567	3.75 years	7 years
1 January 2023	26,279,586	4 years	7 years
1 April 2023	103,693,530	4.25 years	7 years
1 July 2023	54,041,949	4 years	7 years

## Notes to the Consolidated Financial Statements

**31 SHARE-BASED COMPENSATION PLANS (CONTINUED)****(b) Share option plan (continued)**

Movements in the number of share options granted and their related weighted average exercise price during the year ended 31 December 2023 are as follows:

	Year ended 31 December			
	2023		2022	
	Average exercise price per share option (HKD)	Number of options	Average exercise price per share option (HKD)	Number of options
At beginning of the year	0.62	1,004,051,796	0.53	979,707,216
Granted	0.78	184,015,065	0.78	351,612,853
Exercised	0.39	(288,493,291)	0.41	(242,785,739)
Forfeited	0.76	(105,797,225)	0.76	(84,482,534)
At end of the year	0.73	793,776,345	0.62	1,004,051,796

No option expired during the year ended 31 December 2023 (2022: nil).

As at 31 December 2023, 316,162,350 (2022: 348,772,234) options were vested but not exercised.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price (HKD)	Number of share options	
			December 31, 2023	December 31, 2022
2 November 2016	2 November 2023	*	–	57,461,635
1 July 2017	1 July 2024	0.22 or*	18,019,452	37,386,011
1 February 2019	1 February 2026	0.78 or 0.22 or*	46,056,884	81,687,005
30 June 2019	30 June 2026	0.78	9,207,944	13,043,353
1 January 2020	1 January 2027	0.78 or 0.22 or*	88,050,435	191,113,102
1 July 2020	1 July 2027	0.78	5,516,421	10,693,056
1 January 2021	1 January 2028	0.78 or 0.22 or*	203,656,966	268,969,290
1 July 2021	1 July 2028	0.78 or 0.22	10,191,217	16,884,507
1 January 2022	1 January 2029	0.78	71,712,808	97,249,341
1 July 2022	1 July 2029	0.78	6,197,680	9,032,433
13 September 2022	13 September 2029	0.78	183,439,513	220,532,063
1 January 2023	1 January 2030	0.78	19,630,919	–
1 April 2023	1 April 2030	0.78	90,573,201	–
1 July 2023	1 July 2030	0.78	41,522,905	–
		<b>Total</b>	<b>793,776,345</b>	1,004,051,796

\* represents that the amount is less than HKD0.01 for the year.

### 31 SHARE-BASED COMPENSATION PLANS (CONTINUED)

#### (c) Fair value estimation of share options

The fair value as at the grant dates of each of the share-based compensation plans are summarised as follows:

	1 January 2022 RMB'000	1 July 2022 RMB'000	13 September 2022 RMB'000	1 January 2023 RMB'000	1 April 2023 RMB'000	1 July 2023 RMB'000
Share options (i)	454,513	21,353	307,426	38,169	184,493	73,775

#### (i) Share options

The fair value of the share options is determined by the binomial option-pricing model at the grant date, which is to be expensed over the respective vesting periods. Significant estimates on assumptions, including risk-free interest rate, expected volatility, dividend yield, and terms, are made by the management and third-party valuers. Before listing, the equity allocation method has been applied in the determination of the fair value of each class of the shares in the Company, which requires considering the rights and preferences of each class of shares and back solving for the total equity value that is consistent with a recent transaction in the Company's own securities, considering the rights and preferences of each class of shares.

The directors of the Company estimated the risk-free interest rate based on the yield of curve of US Treasury strips with a maturity life close to the option life of the share option. Expected volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Time to maturity is based on the terms of agreements at the grant date.

The fair value of the share options granted have been valued by an independent qualified valuer using the Binomial valuation model as at each grant date. Key assumptions are set as below:

Grant date	Risk-free interest rate	Expected volatility	Time to maturity
January 1, 2022	1.32%	45.32%	7 years
July 1, 2022	2.82%	47.96%	7 years
September 13, 2022	3.13%	47.73%	7 years
January 1, 2023	3.68%	47.73%	7 years
April 1, 2023	3.14%	47.63%	7 years
July 1, 2023	3.65%	47.54%	7 years

## Notes to the Consolidated Financial Statements

**31 SHARE-BASED COMPENSATION PLANS (CONTINUED)****(d) Share-based compensation expenses recorded during the year**

Share-based compensation charges were expensed off in the following categories in the consolidated income statements:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Selling expenses	53,914	69,216
Administrative expenses	119,745	176,758
Research and development expenses	150,336	218,499
	<b>323,995</b>	464,473

The Group's share-based compensation plans and how these are accounted for:

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of equity instruments (options) is recognised as an expense on the consolidated financial statements. The total amount to be expensed is determined by reference to the fair value of the equity instruments (options) granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance unlocking conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any lock-up period conditions (for example, the requirement for employees to save or holding shares for a specified time period after the vesting period).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement date and grant date.

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 recognised for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognised 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 recognised over the remainder of the original vesting period.

### 31 SHARE-BASED COMPENSATION PLANS (CONTINUED)

#### (d) Share-based compensation expenses recorded during the year (continued)

If the Group receive or acquire goods or services, other than services from employees, in exchange for its own equity instruments, the fair value of goods or services received by an entity should be measurable directly. If the fair value cannot be measured reliably, the Group measures the value of the goods and services by reference to the fair value of the equity instruments granted as consideration.

From the perspective of the Company, the grants of its equity instruments to employees of its subsidiaries are made in exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses are treated as part of the “investments in subsidiaries” in the Company’s balance sheet.

### 32 TRADE AND OTHER PAYABLES AND LONG-TERM PAYABLES

#### (a) Trade and other payables

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Notes payables	–	1,691
Trade payables		
– Third parties	<b>840,767</b>	842,792
– Related parties (Note 38(c)(iii))	<b>790</b>	4,378
Long-term payables due within 1 year	<b>16,000</b>	8,000
Other payables		
– Third parties	<b>502,520</b>	566,256
– Related parties (Note 38 (c)(iv))	<b>6,641</b>	2,148
Payables on purchase of property, plant and equipment and intangible assets	<b>416,090</b>	387,521
Accrued taxes other than income tax	<b>72,087</b>	223,530
Staff salaries and welfare payables	<b>366,766</b>	400,977
VAT payables related to contract liabilities	<b>31,505</b>	15,410
Accrued warranty expenses	<b>8,967</b>	19,878
	<b>2,262,133</b>	2,472,581

## Notes to the Consolidated Financial Statements

**32 TRADE AND OTHER PAYABLES AND LONG-TERM PAYABLES (CONTINUED)****(a) Trade and other payables (continued)**

- (i) The carrying amounts of trade and other payables are considered to be approximated to their fair values, due to their short-term nature.
- (ii) Aging analysis of the trade payables and notes payables based on purchase date at the end of 31 December 2023 are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Up to 6 months	599,714	718,327
6 months to 1 year	115,885	76,660
1 to 2 years	79,267	19,477
More than 2 years	46,691	34,397
	<b>841,557</b>	848,861

**(b) Long-term payables**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Long-term payables	5,294	11,611

Long-term payables represented the obligations to pay for goods and licensed intellectual properties with payments due more than one year. The fair values of long-term payables as at 31 December 2023 were RMB5,190,000 (2022: RMB11,126,000).

## Notes to the Consolidated Financial Statements

**33 PUT OPTION LIABILITY**

	<b>As at 31 December</b>	
	<b>2023</b> <b>RMB'000</b>	2022 RMB'000
Present value of liability in relation to a put option granted to non-controlling shareholder of a subsidiary (a)		
– Non-current portion	–	278,584
– Current portion	<b>283,308</b>	–
	<b>283,308</b>	<b>278,584</b>

- (a) On 17 April 2019, the Group entered into an agreement with a strategic technology partner (“Company Z”) to allot and issue 45% of the subsidiary’s equity interest. According to the equity subscription arrangement, Company Z has the right to request the Group to purchase the 45% equity it held at a pre-agreed price on the occurrence of some certain events. The purchase price was determined by making reference to the range between the net assets of the subsidiary in future periods and a fixed amount (USD40,000,000) as stated in the equity subscription arrangement. Since the Group is obligated to pay cash to Company Z upon occurrence of certain events beyond the Group’s control, this put option liability was initially recognised at present value of redemption amount by the Group with reference to the present value of the estimated future cash outflows, and was accreted to redemption amount subsequently. As at 31 December 2023, the put option liability was disclosed as current liability as the equity subscription arrangement will expire on 1 July 2024.

**34 BORROWINGS**

	<b>As at 31 December</b>	
	<b>2023</b> <b>RMB'000</b>	2022 RMB'000
<b>Non-Current</b>		
Bank borrowing – secured	<b>3,532,070</b>	2,909,453
Bank borrowing – guaranteed	<b>764,346</b>	–
Less: current portion of non-current borrowings	<b>(17,730)</b>	(2,300)
	<b>4,278,686</b>	2,907,153
<b>Current</b>		
Short-term borrowing – guaranteed	<b>132,760</b>	316,248
Short-term borrowing – secured	<b>40,000</b>	–
Current portion of non-current borrowings	<b>17,730</b>	2,300
Interest payable	<b>3,939</b>	2,913
	<b>194,429</b>	321,461
<b>Total</b>	<b>4,473,115</b>	3,228,614

## Notes to the Consolidated Financial Statements

**34 BORROWINGS (CONTINUED)****Secured bank borrowing**

As at 31 December 2023, the Group had non-current bank borrowings with carrying amount of RMB259,080,000 which were secured by the Group's restricted deposits of USD43,900,000 (equivalent to RMB323,984,000) (31 December 2022: bank borrowings with carrying amount of RMB229,700,000 which were secured by the Group's restricted deposits of USD38,600,000 (equivalent to RMB271,392,000)).

As at 31 December 2023, the Group had a non-current bank borrowing with carrying amount of RMB1,608,850,000 (31 December 2022: RMB1,015,613,000) which was pledged by equity interest of Shanghai Yuqin Information Technology Co., Ltd. ("Shanghai Yuqin") and joint liability guarantee from Shanghai Yuqin and Shanghai SenseTime. In addition, certain buildings (Note 17(a)) with a carrying amount of RMB1,074,851,000 and land use right with a carrying amount of RMB63,164,000 (Note 18(a))(31 December 2022: buildings (Note 17(a)) with a carrying amount of RMB1,109,380,000 and land use right with a carrying amount of RMB64,517,000(Note 18(a))) respectively were also pledged as collaterals for this bank borrowing.

As at 31 December 2023, the Group had a non-current bank borrowing with carrying amount of RMB1,664,140,000 which was pledged by certain buildings (Note 17(a)) with a carrying amount of RMB3,197,977,000 as a collateral for the Group's borrowings. (31 December 2022: bank borrowings with carrying amount of RMB1,664,140,000 which was pledged by certain buildings (Note 17(a)) with a carrying amount of RMB3,266,946,000 as a collateral for the Group's borrowings).

As at 31 December 2023, the Group had a current bank borrowing with carrying amount of RMB40,000,000 which was secured by certain Group's licensed intellectual properties and guaranteed by SenseTime Group Limited.

**Guaranteed bank borrowings**

As at 31 December 2023, the Group had a non-current bank borrowing with carrying amount of RMB143,000,000 for public rental housing, which was guaranteed by a state-owned property developer before the property registration is ready. After that, this borrowing will be guaranteed by Shanghai SenseTime and be pledged by the public rental housing itself as a collateral.

As at 31 December 2023, the Group had non-current bank borrowings with carrying amount of RMB542,346,000 which were guaranteed by SenseTime Group Limited.

As at 31 December 2023, the Group had non-current bank borrowings with carrying amount of RMB79,000,000 which were guaranteed by Beijing SenseTime.

As at 31 December 2023, the Group had current bank borrowings with carrying amount of RMB132,760,000 which were guaranteed by SenseTime Group Limited.

The Group's borrowings are all denominated in RMB.

## Notes to the Consolidated Financial Statements

**34 BORROWINGS (CONTINUED)**

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier were as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
6 months or less	111,500	199,954
Between 6 and 12 months	78,990	118,594
Between 1 and 2 years	298,810	6,300
Between 2 and 5 years	1,673,138	610,565
Over 5 years	2,306,738	2,290,288
	<b>4,469,176</b>	3,225,701

The aggregate principal amounts of bank borrowings and applicable interest rates are as follows:

	As at 31 December 2023		As at 31 December 2022	
	Amount RMB'000	Interest rate Per annum	Amount RMB'000	Interest rate Per annum
RMB bank borrowings	4,469,176	1.95%~3.80%	3,225,701	2.50%~3.95%

The Group had complied with all of the financial covenants of its borrowings for the year ended 31 December 2023 (2022: complied with all of the financial covenants of its borrowings).

As at 31 December 2023, the weighted average effective interest rate for borrowings was 3.23% (2022: 3.36%).

The fair values of current borrowings equal to their carrying amount as the discounting impact is not significant.

## Notes to the Consolidated Financial Statements

**34 BORROWINGS (CONTINUED)**

The fair values of non-current borrowings as at 31 December 2023 were disclosed as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Non-current borrowings	<b>4,234,911</b>	2,801,157

As at 31 December 2023, the Group has the following undrawn bank facilities:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB facilities	<b>8,153,792</b>	9,694,749
USD facilities	<b>108,203</b>	195,009
	<b>8,261,995</b>	9,889,758

**35 DEFERRED REVENUE**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Government grants (i)		
– Current	<b>113,368</b>	120,635
– Non-current	<b>305,664</b>	307,593
	<b>419,032</b>	428,228

- (i) The Group received government grants from local governments as support on research and development expenses relating to innovation activities. These government grants were related to the purchase of property, plant and equipment and certain research and development projects, accordingly when the required criteria set by the government are met, the portion of the qualified fund is recognised as “other income” and the remaining balance is recoded as “deferred revenue”.

## Notes to the Consolidated Financial Statements

## 36 CASH FLOW INFORMATION

## (a) Cash used in operations

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Loss before income tax	<b>(6,504,162)</b>	(6,332,812)
Adjustments for		
– Depreciation of property, plant and equipment (Note 17)	<b>900,163</b>	644,891
– Amortisation of intangible assets (Note 19)	<b>184,614</b>	137,621
– Depreciation of right-of-use assets (Note 18)	<b>165,147</b>	185,173
– Provision for impairment of financial assets (Note 3.1(b)(iii))	<b>1,835,246</b>	1,667,671
– Provision for impairment of investments accounted for using the equity method (Note 13)	<b>–</b>	2,251
– Provision for impairment of inventories (Note 22)	<b>26,835</b>	53,127
– Share of loss of investments accounted for using the equity method (Note 13)	<b>20,813</b>	2,357
– Share-based compensation expenses (Note 8)	<b>323,995</b>	464,473
– Finance costs (Note 11)	<b>146,661</b>	55,438
– Finance income (Note 11)	<b>(341,977)</b>	(260,546)
– Fair value losses on financial assets at fair value through profit or loss (Note 10)	<b>724,426</b>	885,078
– Changes on net asset value of investment funds attributable to limited partners (Note 10)	<b>10,363</b>	17,188
– Dividend income (Note 9)	<b>(12,697)</b>	(18,307)
– Losses on disposal of property, plant and equipment (Note 10)	<b>4,499</b>	1,390
– Losses/(gains) on early termination of leasing contracts (Note 10)	<b>2,372</b>	(3,296)
– Realisation of gains from downstream transactions from associates (Note 10)	<b>–</b>	(151)
– Fair value losses on preferred share (Note 30(c))	<b>32,110</b>	7,240
– Net foreign exchange gains	<b>(30,638)</b>	(283,674)
	<b>(2,512,230)</b>	(2,774,888)
Changes in operating assets and liabilities		
– Increase in trade and other receivables	<b>(812,983)</b>	(1,956,056)
– Decrease/(increase) in long-term receivables	<b>249,136</b>	(20,564)
– Decrease/(increase) in contract assets	<b>17,633</b>	(7,784)
– Decrease/(increase) in inventories	<b>84,526</b>	(172,730)
– Decrease in long-term payables	<b>(6,536)</b>	(35,412)
– (Decrease)/increase in trade and other payables	<b>(230,407)</b>	1,708,277
– Increase in contract liabilities	<b>7,728</b>	68,772
– (Decrease)/increase in deferred revenue	<b>(9,196)</b>	116,847
Net cash used in operations	<b>(3,212,329)</b>	(3,073,538)

## Notes to the Consolidated Financial Statements

**36 CASH FLOW INFORMATION (CONTINUED)****(b) Reconciliation of liabilities from financing activities**

	Liabilities from financing activities				
	Lease liabilities RMB'000	Preferred share and other financial liabilities RMB'000	Put option liability RMB'000	Borrowings RMB'000	Total RMB'000
<b>Net debt as at 1 January 2023</b>	<b>(288,230)</b>	<b>(1,395,814)</b>	<b>(278,584)</b>	<b>(3,228,614)</b>	<b>(5,191,242)</b>
Net cash flows	196,006	(214,571)	-	(1,112,048)	(1,130,613)
Other changes	(216,696)	(46,220)	-	(132,453)	(395,369)
Foreign exchange adjustments	17,220	(18,671)	(4,724)	-	(6,175)
<b>Net debt as at 31 December 2023</b>	<b>(291,700)</b>	<b>(1,675,276)</b>	<b>(283,308)</b>	<b>(4,473,115)</b>	<b>(6,723,399)</b>
<b>Net debt as at 1 January 2022</b>	(384,297)	(1,072,583)	(255,028)	(339,888)	(2,051,796)
Net cash flows	168,036	(204,000)	-	(2,842,772)	(2,878,736)
Other changes	(87,700)	(27,583)	-	(45,954)	(161,237)
Foreign exchange adjustments	15,731	(91,648)	(23,556)	-	(99,473)
<b>Net debt as at 31 December 2022</b>	<b>(288,230)</b>	<b>(1,395,814)</b>	<b>(278,584)</b>	<b>(3,228,614)</b>	<b>(5,191,242)</b>

**(c) Non-cash investing and financing activities**

Except for the above transactions, there were no material non-cash transactions during the year ended 31 December 2023 (2022: nil).

**37 CAPITAL COMMITMENTS**

Significant capital expenditure commitments are set out below:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Capital investment for financial assets at fair value through profit or loss	227,800	180,400
Property, plant and equipment	247,394	466,886
Intangible assets	2,992	7,704
	<b>478,186</b>	654,990

## Notes to the Consolidated Financial Statements

**38 RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) Save as disclosed elsewhere in the financial statements, the directors of the Company are of the view that the following parties/companies were related parties that had transaction or balances with the Group:

<b>Name of related parties</b>	<b>Relationship with the Group</b>
Shanghai Artificial Intelligence Research Institute Co., Ltd. (上海人工智能研究院有限公司, "SAIRI")	Associate of the Group
Hangzhou Shang Jing Yun Intelligent Technology Co., Ltd. (杭州商警雲智能科技有限公司, "Shang Jing Yun")	Associate of the Group
Beijing Linkface Technology Co., Ltd. (北京今始科技有限公司, "Linkface")	Associate of the Group
Shangyu Technology (Beijing) Co., Ltd. (商予科技(北京)有限公司, "Shangyu")	Associate of the Group
Shanghai Lingang Yuanqi Intelligent Technology Co., Ltd. (上海臨港元企智能科技有限公司, "Lingang Yuanqi")	Joint venture of the Group
Huangpu Intelligent Computing (Guangzhou) Co., Ltd. (黃埔智算(廣州)有限公司, "Huangpu Intelligent")	Joint venture of the Group
Seno China Limited	Joint venture of the Group
Shandong Hoooon Toy Co., Ltd. (山東轟轟智能機器人有限公司, "Shandong Hoooon")	Investment with significant influence
Zero Sports AI Beijing Co., Ltd. (賽事之窗(北京)科技有限公司, "Zero Sports AI")	Investment with significant influence
Chengdu Lu Xingtong Information Technology Co., Ltd. (成都路行通信息技術有限公司, "Lu Xingtong")	Investment with significant influence
Shanghai Sun Vision Intelligent Technology Co., Ltd. (上海光方迅視智能科技有限公司, "Sun Vision")	Investment with significant influence
MantisVision Technologies Co., Ltd. (螳螂慧視科技有限公司, "Tanglang")	Investment with significant influence
Shanghai Huiming Software Co., Ltd. (上海輝明軟件有限公司, "Shanghai Huiming")	Investment with significant influence
Shanghai Linguniverse Technology Development Co., Ltd. (上海靈宇宙科技發展有限公司, "Shanghai Linguniverse")	Investment with significant influence
Japan Computer Vision Corp. (a)	Company controlled by a significant shareholder before July 2023
Shanghai SenseTime Qianshi Technology Ltd. (上海阡視科技有限公司, formerly named 上海商湯阡視科技有限公司, "Shanghai Qianshi") (b)	Company controlled by key management personnel before August 2023

- (a) Softbank Corp. was a substantial shareholder of the Company and the shareholding percentage in the Company was over 10% before 2023. After the continuous dilution of the shareholding percentage in the Company, Softbank Corp. and its subsidiaries or affiliates were no longer the related parties of the Company since July 2023.
- (b) Shanghai Qianshi was no longer a related party of the Company after the shares of Shanghai Qianshi was sold to a third party by the Company's key management personnel on 15 August 2023 and was not able to exercise its significant influence in Shanghai Qianshi.

## Notes to the Consolidated Financial Statements

**38 RELATED PARTY TRANSACTIONS (CONTINUED)****(b) Transactions with related parties****(i) Sale of products or provision of services**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Japan Computer Vision Corp.*	12,628	64,099
Huangpu Intelligent	4,726	–
Lingang Yuanqi	573	90
Shanghai Qianshi*	110	38
Shangyu	11	–
Shanghai Linguniverse	8	–
Lu Xingtong	–	16,528
SAIRI	–	133
Shang Jing Yun	–	13
	<b>18,056</b>	<b>80,901</b>

**(ii) Purchase of products or services**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Sun Vision	7,111	5,294
Huangpu Intelligent	4,138	–
Shandong Hoooon	3,940	4,997
Shang Jing Yun	2,130	1,509
Shangyu	1,813	–
Tanglang	47	–
Lu Xingtong	–	3,285
Shanghai Qianshi*	–	1,500
Zero Sports AI	–	353
	<b>19,179</b>	<b>16,938</b>

**38 RELATED PARTY TRANSACTIONS (CONTINUED)****(b) Transactions with related parties (continued)****(iii) Purchase of property, plant and equipment and intangible assets**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
SAIRI	48,673	–
Tanglang	3,810	–
Shanghai Huiming	2,830	–
	55,313	–

**(iv) Repayment/(provision) of loans to a related party**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Shanghai Qianshi*	–	(15,037)

**(v) Interest income from a related party**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Shanghai Qianshi*	375	256

## Notes to the Consolidated Financial Statements

**38 RELATED PARTY TRANSACTIONS (CONTINUED)****(c) Balances with related parties****(i) Trade receivables**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Shang Jing Yun	2,391	5,149
Huangpu Intelligent	510	–
Lingang Yuanqi	91	75
Shanghai Qianshi*	–	4,887
Japan Computer Vision Corp.*	–	37,294
	<b>2,992</b>	47,405
Loss allowance	<b>(2,503)</b>	(8,793)
	<b>489</b>	38,612

**(ii) Other receivables – non-trade in nature**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Shanghai Qianshi*	–	15,293
Linkface	666	666
	<b>666</b>	15,959
Loss allowance	<b>(666)</b>	(1,489)
	<b>–</b>	14,470

## 38 RELATED PARTY TRANSACTIONS (CONTINUED)

## (c) Balances with related parties (continued)

## (iii) Trade payables

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Sun Vision	528	–
Shandong Hoooon	162	4,278
Shang Jing Yun	100	100
	790	4,378

## (iv) Other payables

	As at 31 December	
	2023 RMB'000	2022 RMB'000
<b>Non-trade in nature</b>		
Seno China Limited	657	648
<b>Trade in nature</b>		
Shanghai Huiming	2,830	–
Shangyu	1,813	–
Huangpu Intelligent	872	–
Sun Vision	464	–
Shandong Hoooon	5	–
Shanghai Qianshi*	–	1,500
	6,641	2,148

## (v) Prepayment for purchase of products

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Lu Xingtong	5,241	5,241
Shanghai Huiming	250	–
Shang Jing Yun	218	91
Sun Vision	–	280
	5,709	5,612

## Notes to the Consolidated Financial Statements

**38 RELATED PARTY TRANSACTIONS (CONTINUED)****(c) Balances with related parties (continued)****(vi) Prepayment for purchase of property, plant and equipment and intangible assets**

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Tanglang	–	478

**(vii) Contract liabilities**

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Shangyu	<b>283</b>	–
Lu Xingtong	<b>54</b>	49
Shanghai Linguniverse	<b>18</b>	–
Japan Computer Vision Corp.*	–	336
	<b>355</b>	385

\* These companies were no longer related parties of the Company as at 31 December 2023 and the balances weren't disclosed as related party balances.

**38 RELATED PARTY TRANSACTIONS (CONTINUED)****(d) Key management compensations**

Key management includes directors (executive and non-executive) and members of the executive committee. The compensation paid or payable to key management for employee services is shown below:

	<b>Year ended 31 December</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Wages, salaries and bonuses	<b>19,985</b>	21,086
Pension costs – defined contribution plans	<b>220</b>	159
Other social security costs, housing benefits and other employee benefits	<b>187</b>	135
Share-based compensation expenses	<b>5,497</b>	11,782
	<b>25,889</b>	33,162

As at 31 December 2023, RMB5,861,000 has not been paid to key management (31 December 2022: RMB4,805,000).

## Notes to the Consolidated Financial Statements

**39 BENEFITS AND INTERESTS OF DIRECTORS**

The remuneration of every director for the year ended 31 December 2023 were set out below:

Name of Directors	Fees RMB'000	Wages and salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation expenses RMB'000	Social security	Total RMB'000
					costs, housing benefits and employee welfare RMB'000	
<b>Executive Directors:</b>						
Dr. XU Li (徐立博士)	-	1,851	1,341	-	113	3,305
Dr. WANG Xiaogang (王晓刚博士)	-	1,298	591	-	-	1,889
Mr. XU Bing (徐冰先生)	-	1,659	667	-	113	2,439
<b>Non-executive Directors</b>						
Ms. FAN Yuanyuan (范媛媛女士)	-	-	-	-	-	-
<b>Independent non-executive Directors</b>						
Prof. XUE Lan (薛澜教授)	1,152	-	-	-	-	1,152
Mr. LYN Frank Yee Chon (林怡仲先生)	1,152	-	-	-	-	1,152
Mr. LI Wei (厲偉先生)	1,260	-	-	-	-	1,260
	3,564	4,808	2,599	-	226	11,197

## Notes to the Consolidated Financial Statements

**39 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)**

The remuneration of every director for the year ended 31 December 2022 were set out below:

Name of Directors	Fees RMB'000	Wages and salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation expenses RMB'000	Social security costs, housing benefits and employee welfare RMB'000	Total RMB'000
<b>Executive Directors:</b>						
Dr. XU Li (徐立博士)	-	2,667	798	-	63	3,528
Prof. Tang	-	-	-	-	-	-
Dr. WANG Xiaogang (王晓刚博士)	-	2,149	631	-	-	2,780
Mr. XU Bing (徐冰先生)	-	1,989	596	-	63	2,648
<b>Non-executive Directors</b>						
Ms. FAN Yuanyuan (范媛媛女士)	-	-	-	-	-	-
<b>Independent non-executive Directors</b>						
Prof. XUE Lan (薛澜教授)	1,099	-	-	-	-	1,099
Mr. LYN Frank Yee Chon (林怡仲先生)	1,099	-	-	-	-	1,099
Mr. LI Wei (厲偉先生)	1,202	-	-	-	-	1,202
	3,400	6,805	2,025	-	126	12,356

### 39 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

**(a) Directors' retirement and termination benefits**

No retirement or termination benefits have been paid to the Company's directors for the year ended 31 December 2023 (2022: nil).

**(b) Consideration provided to third parties for making available directors' services**

No consideration was provided to third parties for making available directors' services during the year ended 31 December 2023 (2022: nil).

**(c) Information about loans, quasi-loans or other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors**

No loans, quasi-loans or other dealings were entered into by the Company in favor of directors, controlled bodies corporate by and connected entities with such directors during the year ended 31 December 2023 (2022: nil).

**(d) 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 year ended 31 December 2023 (2022: nil).

### 40 CONTINGENCIES

As at 31 December 2023, there were no significant contingencies assets and liabilities for the Group.

### 41 EVENTS AFTER THE BALANCE SHEET DATE

For the purposes of facilitating further Artificial Intelligence Data Center ("AIDC") operation of the Group in the PRC, on 29 January 2024, Shanghai SenseTime Digital Technology Co., Ltd. (an indirect wholly-owned subsidiary of the Company) entered into a series of contractual arrangements with an operating company and the individual shareholders. The operating company will be principally engaged in the operation of AIDC in China.

**42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY****(a) Balance sheet of the Company**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
<b>Assets</b>		
<b>Non-current assets</b>		
Investments in subsidiaries	<b>392,337</b>	3,676,399
<b>Current assets</b>		
Other receivables	<b>28,493,998</b>	39,531,862
Cash and cash equivalents	<b>2,655</b>	6,817
	<b>28,496,653</b>	39,538,679
<b>Total assets</b>	<b>28,888,990</b>	43,215,078
<b>Equity</b>		
Share capital	<b>5</b>	5
Other reserves	<b>71,719,676</b>	71,295,396
Currency translation reserves	<b>5,841,187</b>	5,106,639
Accumulated losses	<b>(48,696,510)</b>	(33,199,808)
<b>Total equity</b>	<b>28,864,358</b>	43,202,232
<b>Liabilities</b>		
<b>Current liabilities</b>		
Other payables	<b>24,632</b>	12,846
<b>Total liabilities</b>	<b>24,632</b>	12,846
<b>Total equity and liabilities</b>	<b>28,888,990</b>	43,215,078

The balance sheet of the Company was approved by the Board of Directors on 26 March 2024 and was signed on its behalf.

**Xu Li**  
Director

**Xu Bing**  
Director

## Notes to the Consolidated Financial Statements

**42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)****(b) Reserve movement of the Company**

	Share premium RMB'000	Share-based compensation expenses RMB'000	Other comprehensive income reserve RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2023</b>	<b>71,317,758</b>	<b>632,166</b>	<b>-</b>	<b>(654,528)</b>	<b>71,295,396</b>
Share based compensation expenses	-	323,995	-	-	323,995
Exercise of share options	422,740	(322,455)	-	-	100,285
<b>As at 31 December 2023</b>	<b>71,740,498</b>	<b>633,706</b>	<b>-</b>	<b>(654,528)</b>	<b>71,719,676</b>
<b>At 1 January 2022</b>	70,155,916	619,579	-	(654,528)	70,120,967
Share based compensation expenses	-	464,473	-	-	464,473
Exercise of restricted shares and share options	538,281	(451,886)	-	-	86,395
Exercise of over-allotment option	692,807	-	-	-	692,807
Repurchase of ordinary shares	(69,246)	-	-	-	(69,246)
<b>As at 31 December 2022</b>	<b>71,317,758</b>	<b>632,166</b>	<b>-</b>	<b>(654,528)</b>	<b>71,295,396</b>

**43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES****43.1 Associates**

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (Note 43.4), after initially being recognised at cost.

**43.2 Joint arrangements**

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangement and determined it to be joint ventures. Interests in joint ventures are accounted for using the equity method (Note 43.4), after initially being recognised at cost in the consolidated balance sheets.

## 43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 43.3 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the consolidated income statement, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy.

### 43.4 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity holders 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 recognised in a separate reserve within equity attributable to equity holders of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in consolidated income statement. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

If the ownership interest in an associate or joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to consolidated income statement where appropriate.

## 43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 43.5 Foreign currency translation

**(a) 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"). The Company's functional currency is USD. The Company's primary subsidiaries were incorporated in the mainland China, Hong Kong, Japan, Singapore and Middle East, and these subsidiaries considered RMB, HKD, JPY, SGD and AED as their functional currency respectively. As the major operations of the Group are within the mainland China, the Group determined to present its consolidated financial statements in RMB.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. 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 recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within finance costs. All other foreign exchange gains and losses are presented in the consolidated income statement 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 recognised 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 recognised in other comprehensive income.

## **43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)**

### **43.5 Foreign currency translation (continued)**

#### **(c) 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 comprehensive loss are translated at average exchange rates (unless this average 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 rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

### **43.6 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

### **43.7 Inventories**

Inventories are referred to purchased hardware and components and contract fulfilment cost. Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

## 43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 43.8 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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.

Cash restricted for guaranteed deposits for bank borrowings or issuance of notes payables or other purpose were included in the restricted cash on the consolidated balance sheets.

Term deposits with initial terms of over three months were included in the term deposits on the consolidated balance sheets.

### 43.9 Share capital and share held for share award scheme

Ordinary shares are classified as equity (Note 28).

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, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders as treasury shares until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

### 43.10 Trade and other payables

Trade and other 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## **43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)**

### **43.11 Borrowings**

Borrowings are initially recognised 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 recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised 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 recognised in profit or loss as “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.

### **43.12 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 capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

## 43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 43.13 Employee benefits

#### (a) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other postretirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group's contributions to these plans are expensed as incurred.

The Group entities in Hong Kong have arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF"), a defined contribution plan. Under the MPF, the Group entities in Hong Kong and their Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HKD1,500 per month, and any excess contributions are voluntary.

The Group has no further material obligation for post-retirement benefits beyond the contributions made.

#### (b) Housing funds, medical insurances and other social insurances

The PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other employee 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 period.

## 43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 43.13 Employee benefits (continued)

**(c) Short-term obligation**

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 recognised 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 consolidated balance sheets.

**(d) Employee leave entitlement**

Employee entitlement to annual leave are recognised when they have accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employees entitlement to sick leave and maternity leave are not recognised until the time of leave.

**(e) Bonus plan**

The expected cost of bonuses is recognised as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

**(f) Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

## 43 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 43.14 Government grants

Grants from the government are recognised 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 35 provides further information on how the Group accounts for government grants.

Government grants relating to costs are deferred and recognised in the 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 and certain research and development projects are included in non-current liabilities as deferred revenue and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### 43.15 Loss per share

#### (i) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares; 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 and excluding treasury shares.

#### (ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss 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.

## Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

“1st Contractual Arrangement”	the series of contractual arrangement entered into by, among others, Shanghai Qianlun, Shanghai SenseTime Technology Development and Shanghai Yuqin, see “Contractual Arrangements” in the Directors’ Report
“2nd Contractual Arrangement”	the series of contractual arrangement entered into by, among others, Shanghai Shangchou and Shenzhen Lemeng, see “Contractual Arrangements” in the Directors’ Report
“3rd Contractual Arrangement”	the series of contractual arrangement entered into by, among others, Shanghai SenseTime Digital Technology Co., Ltd.* (上海商湯數字科技有限公司) and Shanghai Yushu Technology Co., Ltd.* (上海禹紓科技有限公司) subsequent to the Reporting Period, as disclosed in the Company’s announcement dated January 29, 2024
“AI”	artificial intelligence, an area of computer science that focuses on simulating human intelligence by machines
“Amind”	Amind Inc., an exempted company incorporated under the laws of the Cayman Islands with limited liability. Amind was wholly-owned by Prof. Tang Xiao’ou prior to his passing and the beneficial interests in Amind is pending transmission and succession arrangements under the applicable laws
“Articles” or “Articles of Association”	the twenty-third amended and restated articles of association of the Company, adopted by special resolutions of the shareholders of the Company dated June 23, 2023, and as amended from time to time
“Auditor”	PricewaterhouseCoopers, being the external auditor of the Company
“Board” or “Board of Directors”	the board of Directors of the Company
“BVI”	the British Virgin Islands
“Chairman”	The chairman of the Board
“Class A Share(s)”	class A ordinary shares of the share capital of the Company with a par value of US\$0.000000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to 10 votes per share on any resolution tabled at the Company’s general meeting, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share

## Definitions

“Class B Shares(s)”	class B ordinary shares of the share capital of the Company with a par value of US\$0.000000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company’s general meeting
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “the Company”, “we”, “us”	SenseTime Group Inc. (商汤集团股份有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on October 15, 2014, whose Class B Shares are listed on the Stock Exchange (stock codes: 0020 (HKD Counter) and 80020 (RMB Counter))
“Compliance Advisor”	Haitong International Capital Limited, being the compliance advisor of the Company
“Consolidated Affiliated Entities”	collectively, Shanghai Qianlun, Shanghai SenseTime Technology Development, Shanghai Shangchou and Shanghai Yushu, the financial results of which have been consolidated and accounted for as subsidiaries of the Company by virtue of the Contractual Arrangements
“Contractual Arrangements”	in respect of the Reporting Period for this annual report only, the 1st Contractual Arrangement and 2nd Contractual Arrangement, see “Contractual Arrangements” in the Directors’ Report
“Controlling Shareholders(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Prof. Tang Xiao’ou and Amind (each during the period from January 1, 2023 to December 15, 2023 only)
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
“CVPR”	Conference on Computer Vision and Pattern Recognition, an annual research conference sponsored by the IEEE
“Directors”	the directors of the Company
“Dr. Wang”	Dr. Wang Xiaogang, our co-founder, executive Director, chief scientist and a WVR Beneficiary
“ESG”	environmental, social and governance
“ESG Reporting Guide”	the Environmental, Social and Governance Reporting Guide as set out in Appendix C2 of the Listing Rules
“GAAP”	generally accepted accounting principles

“Global Offering”	the global offering in respect of 1,500,000,000 Class B Shares which was completed on the Listing Date
“Group”, “our Group”, or “the Group”	the Company and its subsidiaries and Consolidated Affiliated Entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IDC License”	the Value-added Telecommunications Business Operation Permit with Internet Data Center Services
“Independent Third Party(ies)”	individual(s) or company(ies) who or which, to the best of the Director’s knowledge having made all due and careful enquiries, is/are independent from and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Individual Shareholders”	collectively, Mr. Yang Fan and Mr. Ma Kun
“Infinity Vision”	Infinity Vision Enterprise Inc., a business company incorporated under the laws of BVI with limited liability, which is wholly-owned by Dr. Wang
“Joint Company Secretaries”	the joint company secretaries of the Company
“Latest Practicable Date”	April 19, 2024, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained in this annual report
“Listing Date”	December 30, 2021, being the date on which dealings in the Class B Shares first commenced on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of the Company, adopted by special resolutions of the shareholders of the Company dated June 23, 2023, and as amended from time to time
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)

## Definitions

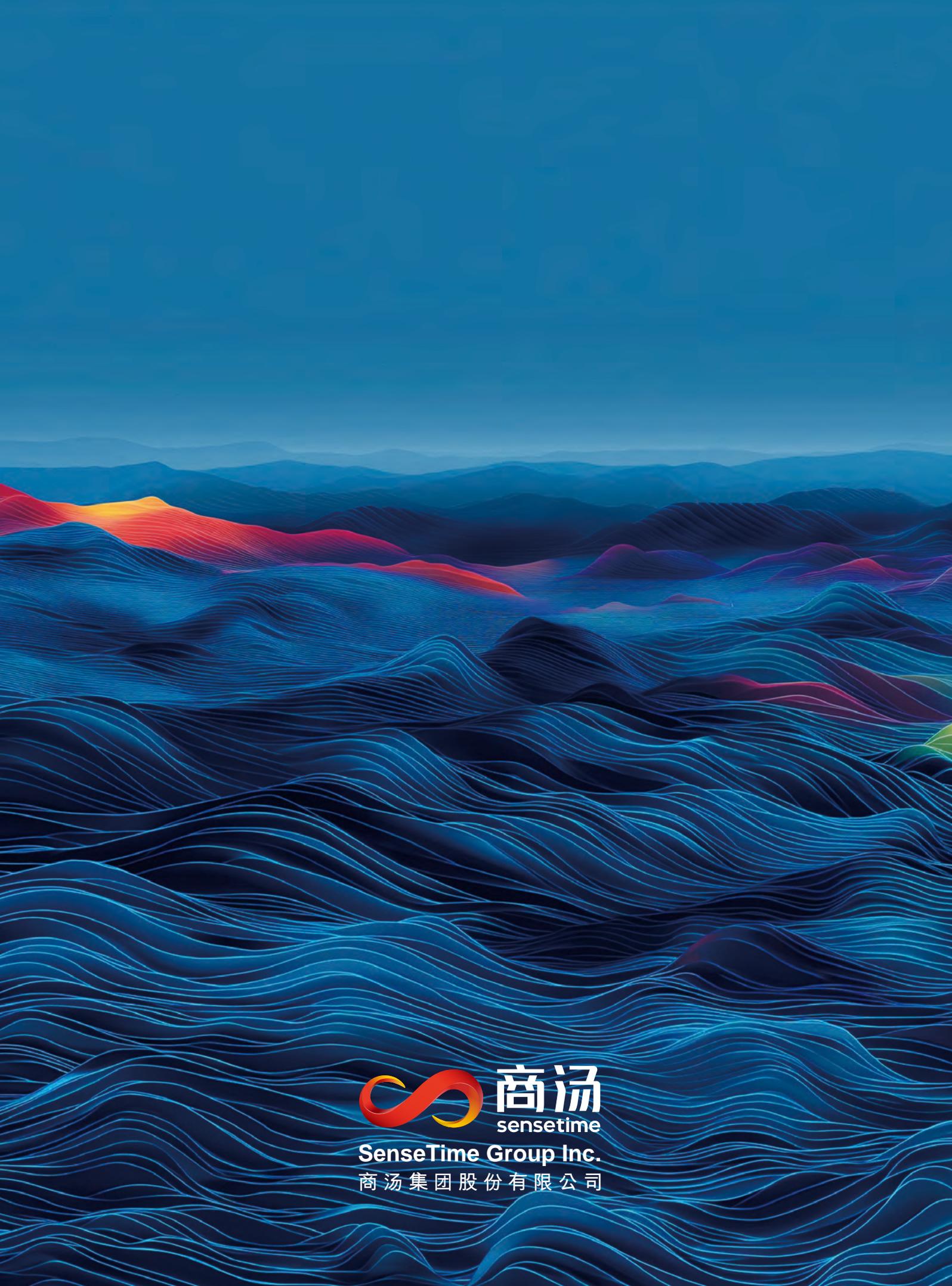
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 of the Listing Rules
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“PRC” or “China”	the People’s Republic of China
“Pre-IPO ESOP”	the pre-IPO employee incentive scheme adopted by the Company dated November 1, 2016 as amended from time to time, the principal terms of which are set out in “Share Incentive Schemes – Pre-IPO ESOP” in the Directors’ Report
“Pre-IPO RSU Plan”	the pre-IPO RSU plan adopted by the Company dated November 1, 2016 as amended from time to time, the principal terms of which are set out in “Share Incentive Schemes – Pre-IPO RSU Plan” in the Directors’ Report
“Prospectus”	the prospectus issued by the Company on December 7, 2021 in connection with the Global Offering and listing of the Class B Shares on the Stock Exchange, as amended and supplemented by the supplemental prospectus issued by the Company on December 20, 2021
“Reporting Period”	the year ended December 31, 2023
“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum of Association or Articles of Association; (ii) the variation of rights attached to any class of shares; (iii) the appointment, election or removal of any independent non-executive Director; (iv) the appointment, election or removal of the Company’s auditor; and (v) the voluntary liquidation or winding-up of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SenseTalent”	SenseTalent Management Limited, a business company incorporated under the laws of BVI with limited liability holding our ordinary Shares pursuant to the Pre-IPO ESOP and the Pre-IPO RSU Plan
“SenseTime HK”	SenseTime Group Limited 商湯集團有限公司, a company incorporated under the laws of Hong Kong with limited liability on October 30, 2014, our direct wholly-owned subsidiary

## Definitions

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Qianlun”	Shanghai Qianlun Technology Co., Ltd. (上海阡倫科技有限公司), a company incorporated under the laws of the PRC with limited liability on September 17, 2020, our Consolidated Affiliated Entity
“Shanghai SenseTime Digital”	Shanghai SenseTime Digital Technology Co., Ltd.* (上海商湯數字科技有限公司), a wholly foreign owned enterprise incorporated under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Shanghai SenseTime Technology Development”	Shanghai SenseTime Intelligent Technology Co., Ltd. (上海商湯智能科技有限公司), a company incorporated under the laws of the PRC with limited liability on December 15, 2017, our indirect wholly-owned subsidiary
“Shanghai Shangchou”	Shanghai Shangchou Technology Co., Ltd. (上海商籌科技有限公司), a company incorporated under the laws of the PRC with limited liability on September 13, 2022, our Consolidated Affiliated Entity
“Shanghai Yuqin”	Shanghai Yuqin Information Technology Co., Ltd. (上海煜芩信息科技有限公司), a company incorporated under the laws of the PRC with limited liability on March 20, 2019, our indirect wholly-owned subsidiary
“Shanghai Yushu”	Shanghai Yushu Technology Co., Ltd.* (上海禹紓科技有限公司), a company incorporated under the laws of the PRC with limited liability
“Share(s)”	the Class A Shares and the Class B Shares in the share capital of our Company, as the context so requires
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Lemeng”	Shenzhen Lemeng Technology Services Co., Ltd. (深圳樂檬科技服務有限公司), a wholly foreign owned enterprise incorporated under the laws of the PRC with limited liability on March 8, 2022, our indirect wholly-owned subsidiary
“State Council”	the PRC State Council (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vision Worldwide”	Vision Worldwide Enterprise Inc., a business company incorporated under the laws of BVI with limited liability which is wholly-owned by Mr. Xu Bing

## Definitions

“WVR Beneficiaries”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Dr. Xu Li, Dr. Wang and Mr. Xu Bing, being the holders of the Class A Shares, entitling each to weighted voting rights, see “Weighted Voting Rights” in the Directors’ Report
“WVR Structure”	has the meaning ascribed to it in the Listing Rules
“XWorld”	XWORLD Enterprise Inc., a business company incorporated under the laws of BVI with limited liability which is wholly-owned by Dr. Xu Li



 **商汤**  
sensetime  
**SenseTime Group Inc.**  
商汤集团股份有限公司