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You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2018, 2019 and 2020 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a leading AI software company with customers across a broad spectrum of industries and the largest in Asia in terms of revenue in 2020, according to Frost & Sullivan. We have achieved market leadership by providing AI software platforms to help our customers drive productivity, creativity, and efficiency. We have built a first-of-its-kind universal AI infrastructure to achieve mass production of a variety of AI models with rich functionality and superior accuracy. We develop scalable AI software platforms to facilitate rapid deployment of AI models into numerous scenarios.

OUR BUSINESS MODEL

Our business model is highly scalable. Our universal AI infrastructure, SenseCore, offers a smooth, standardized, and end-to-end production flow of AI models and unifies our research and production capabilities into a single underlying platform. Leveraging SenseCore, we can produce various AI models in large scale that are extensible and adaptable to a wide range of scenarios. With our mass production capabilities, we have broadened our offerings to cover perception intelligence, decision intelligence, and AI-enabled content generation and enhancement. Such comprehensive technologies enable us to deliver full-suite offerings for richer and diversified AI applications across a wide range of industry verticals. As of June 30, 2021, we had accumulated over 22,000 AI models to power different applications.

We generate revenue primarily from sales of our software platforms, comprising software licenses, AI software-embedded hardware and related services. Software platforms are delivered primarily through (i) license of software installed on customers' devices or on-premise at customers' servers; and (ii) AI software-embedded hardware combining AI chips and/or AI sensors to effectively run our AI models, both of which allow integration of our AI models and applications with customers' devices or IT infrastructure. Hardware, including those designed by us, is sourced from third parties.

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The price of our software platforms is primarily based on (i) the number and complexity of the AI models provided; (ii) the number and types of IoT devices empowered; (iii) hardware and computing resources required to run the AI models; and (iv) services for deployment and maintenance. Through our software platforms, we also provide SenseCore's capabilities as a versatile AI-as-a-Service offering to customers for customized model production. As customers expand the scale and diversity of AI applications, they are expected to purchase additional products and services from us, which will generate recurring revenue for us.

We also generate revenue by providing research and development services with pricing based primarily on our proprietary technologies involved and research and development resources consumed.

We have a large and growing customer base in a broad range of verticals in China and internationally. Our customer number increased from 732 in 2018 to 1,165 in 2019, and further to 1,225 in 2020, and from 730 in the first half of 2020 to 853 in the first half of 2021.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Company Specific Factors

Advancement in AI Infrastructure to Underpin Research-Production Flywheel and Improve Operating Leverage

Our commercial success is built upon our leading technology capability and universal AI infrastructure. To enable efficient mass-production of AI models, we have made significant investment in our AI infrastructure, SenseCore, which integrates our research and production capabilities into a unified platform. Leveraging cutting-edge technologies on AI algorithms, systems, AI chips and AI sensors, SenseCore enables quick, power-efficient and low-cost mass production of AI models. Our engagement with customers in various industry verticals provides abundant feedback to foster continuous improvement of SenseCore capabilities. This flywheel effect gives us competitive advantage to AI companies working in individual industry vertical separately.

To further enhance SenseCore's production capability, we are investing in the construction of our Shanghai Lingang AIDC. This AIDC is an open, large-scale, low-carbon, and energy-efficient advanced computing infrastructure, with a designed computing capacity of 3.74 exaFLOPS, which will bring our total computation capacity to 4.91 exaFLOPS. We believe that our AIDCs will not only accelerate our innovations and enhance our competitiveness, but also cultivate an open and rapidly growing ecosystem that further strengthens the connections with our customers and the research community. We expect it to make the production of AI models and the development of AI capabilities more efficient and affordable across industries, thus extending the boundary of AI industrialization. Going forward, we may cooperate with third parties to reduce our capital needs in expanding our overall AIDC capacity.

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We have incurred substantial research and development expenses during the Track Record Period to support our innovative product and service offerings. As we continuously enhance SenseCore's capabilities and capacity, we have benefited from improving efficiency in AI model productions. Our R&D staff developed an aggregate of 1,152, 9,673 and 8,377 commercial AI models in 2019, 2020 and the first half of 2021, respectively, representing an annual average of 0.44, 3.45 and 5.24 AI models per person in the same periods, respectively. Leveraging the increasing productivity and capabilities, we aim to reduce the marginal cost for the production of AI models as well as accelerate revenue growth, resulting in considerable operating leverage. Our research and development expenses increased by 45.3% from RMB1,219.5 million in the six months ended June 30, 2020 to RMB1,771.7 million in the six months ended June 30, 2021. Meanwhile, our revenue increased by 91.8% from RMB861.2 million to RMB1,651.8 million in the same periods. Going forward, we expect our revenue growth rate to remain higher than that of our research and development expenses, leading to a continuous improvement in our operating leverage.

Commercialization through Software Platforms and Expansion in Revenue Streams with Full-Stack Capabilities

We deliver AI models to customers through our software platforms. Capitalizing on our industry-leading technological capabilities, we have been standardizing the development and deployment of our easy-to-use AI software platforms to integrate them with customers' devices or IT infrastructures seamlessly. In addition, our software platforms are compatible with an increasingly broad range of third-party hardware, and our AI models can be deployed both on edge device and on cloud through our software platforms, which allows rapid and cost-efficient deployment for our customers across verticals. As our software platforms are being widely used in an increasing number of scenarios such as automobiles, mobile phones, urban spaces and commercial spaces, our revenue growth relies on our ability (i) to develop, adapt, promote and upgrade our software platforms; (ii) to provide more customer value through a growing number of AI models and applications; and (iii) to further expand our customer base with cross-industry innovation. In 2019, 2020, and the first half of 2021, we had produced 1,152, 9,673 and 8,377 AI models, respectively. As of June 30, 2021, we had accumulated over 22,000 commercialized AI models to power varied applications across industry verticals.

We provide SenseCore's capabilities as a versatile AI-as-a-Service offering to customers through our platforms, enabling them to produce AI models tailored to their business needs with minimal efforts, expertise, and investment. SenseCore operates on customers' IT infrastructure via a set of standard interfaces and allows users to utilize their own data for continuous model training and model upgrades. By opening up SenseCore capabilities to customers, we build long-term co-development partnerships to create opportunities for recurring revenue.

We continuously innovate and expand revenue streams. We have introduced software on a subscription basis and expect to significantly expand our subscription offerings. In addition, we aim to offer cloud-based full-stack AI model production and deployment services through AIDCs, providing customers with flexible subscriptions for pre-trained AI models for various AI functions. We have developed our chips tailored to our AI software, and are further designing our AI ISP chips. With ever-expanding portfolio of products and services, we will have greater flexibilities in

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optimizing our offerings and cost structure, eventually bringing more long-term value to our customers.

Our Ability to Grow Our Customer Base and Deepen Customer Relationships

We continuously focus on growing our customer base and deepening our customer relationships. When we expand to new scenarios for specific industry vertical, we usually work with launch customers to develop an in-depth understanding of the vertical as well as customers' specific needs. The launch customers are generally market leaders, with deep industry knowledge and rich scenario data accumulation to support model production. Such collaboration increases our brand awareness in various industries and regions and boosts our customer acquisition capabilities. With well-developed offerings and an established track record, we are able to attract new customers in the same or similar verticals at low cost, to iteratively upgrade our software, and to standardize our software platform for the entire industry. Upon implementation of platforms to similar customers, we also leverage synergies across industry verticals to iteratively upgrade and refine our offerings, thereby creating cost-effective standardized offerings to accelerate the commercialization of AI technology.

We believe that there is a significant opportunity to expand our customer base in overseas markets. We plan to strengthen our sales and marketing capabilities and enhance strategic partnerships with leading companies in target geographies. Our revenue from markets outside the mainland China was RMB319.7 million, RMB475.2 million, RMB762.1 million and RMB238.8 million in 2018, 2019, 2020 and in the six months ended June 30, 2021, respectively.

Management of Working Capital

Our ability to effectively control our working capital is crucial to our operating cash flows. Our net cash used in operating activities decreased by 57.2% from RMB2,869.4 million in 2019 to RMB1,228.8 million in 2020. We had relatively long trade receivables turnover days during the Track Record Period, primarily because a significant portion of our revenue is derived from the public sector, which typically features a long payment cycle. Due to our stable and enhanced relationship with suppliers, we were granted increasingly long credit term by certain suppliers during the Track Record Period. We aim to further leverage our scale to negotiate attractive contractual terms with our customers and suppliers. In addition, we intend to maintain appropriate inventory levels of hardware and components to meet the market demand for our products.

General Factors

Our business and operating results are affected by general factors affecting the AI industry, which include:

- the digital transformation of cities, enterprises and everyday life;

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- the development of communication network and computing infrastructure;
- the prevalence of IoT devices;
- the interconnection of physical and digital worlds and emergence of the Metaverse;
- market acceptance of AI technologies; and
- relevant laws and regulations, governmental policies and initiatives.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in Notes 2 and 4 of Appendix I to this prospectus.

Revenue Recognition

Revenue is recognized when or as 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 goods and services may be transferred over time or at a point in time. Control of goods and services is transferred over time if our performance: (i) provides all of the benefits received and consumed simultaneously by the customer; (ii) creates and enhances an asset that the customer controls as we perform; or (iii) does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

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Contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using an expected cost plus a margin or an 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 judgments on these assumptions and estimates may impact the revenue recognition.

A contract asset is our right to consideration in exchange for goods and services that we have transferred to a customer. A receivable is recorded when we have 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.

If a customer pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services to a customer for which we have 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 recognized 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 determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether we are acting as the principal or an agent in the transactions. If we provide significant integration service to the hardware and are responsible for the overall management of the contract, we are the principal in the transaction and recognize revenue in the gross amount of consideration to which it is entitled from the customer. We report the amount received from the customers and the amounts paid to the suppliers related to these transactions on a net basis if we are not primarily obligated in a transaction, do not generally bear the inventory risk and do not have the ability to establish the price. Significant judgments have been made in determining whether we act as a principal or an agent in the sales transactions. Changes in judgments could materially impact the amounts of revenue recognized.

Sales of Advanced AI Software

We use AI models produced from SenseCore to develop advanced AI software. The AI software normally includes software platform, software license or plug-and-play SDKs. In some industries

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and verticals, the AI software is sold separately, which is a single performance obligation for these contracts. Revenue is recognized 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, we also provide related maintenance and upgrade services for a specific period (normally one to five 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 and recognized over the service period. A contract liability is recognized for advances from the customer in which revenue has not yet been recognized.

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. We deliver 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 recognized 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. For certain sales contracts in which we provide a total solution, revenue is recognized over time since the performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. Such revenue is recognized 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 us to make estimates of costs to complete our 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.

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Sale of AI Software-Embedded Hardware

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

Research and Development Services

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

See Note 2.26 of Appendix I to this prospectus.

Convertible Redeemable Preferred Shares

Our Company has issued preferred shares that are redeemable upon the occurrence of certain future events. These instruments can also be converted into ordinary shares of our Company at the option of the holders, or automatically upon the occurrence of an initial public offering of our Company, or when agreed by a majority of the preferred holders as detailed in Note 30 of Appendix I to this prospectus. We designated such preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognized 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 shareholders can demand that our Company redeem the preferred shares within 12 months after the end of the reporting period.

Taxation

Cayman Islands

Our 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.

British Virgin Islands

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

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Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the years presented.

PRC

Our subsidiaries and our Consolidated Affiliated Entities in mainland China are subject to Enterprise Income Tax (“EIT”) on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law (“EIT Law”). Pursuant to the EIT Law, our subsidiaries in mainland China are generally subject to EIT at the statutory rate of 25%, subject to preferential tax treatments available to qualified enterprises.

Beijing SenseTime and Shenzhen SenseTime 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% during the Track Record Period. This status is subject to a requirement that Beijing SenseTime and Shenzhen SenseTime reapply for HNTEs status every three years.

In addition, according to the relevant laws and regulations promulgated by the State Taxation Administration of the PRC, enterprises engaging in 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 during the Track Record Period.

See Note 13 of Appendix I to this prospectus.

Level 3 of Fair Value Measurement

In respect of the valuation of level 3 fair value measurement financial liabilities, with reference to the guidance under the “Guidance Note on Directors’ Duties in the Context of Valuations in Corporate Transactions” issued by the SFC in May 2017 (the “Guidance”) applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation on the financial assets without readily determinable fair value; (ii) carefully considered available information in assessing the financial data and assumptions including but not limited to discount rate, risk free interest rate, expected volatility, political and industry conditions; (iii) engaged independent valuer to appraise the fair value of certain financial assets that are significant, provided necessary financial to the valuer for the valuer to assess our performed valuation procedures and discussed with the valuer on relevant assumptions; and (iv) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis is fair and reasonable and our financial statements are properly prepared.

Details of the fair value measurement of financial assets and liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs,

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the relationship of unobservable inputs to fair value are disclosed in Note 3.3 of the Accountant's Report in Appendix I to this prospectus, which was reported on by the reporting accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The reporting accountant's opinion on our Historical Financial Information, as a whole, for the Track Record Period is set out on I-1 to I-3 to this prospectus.

The Joint Sponsors have performed the following due diligence work in relation to the valuation of the Level 3 Financial Assets and Liabilities: (i) discussed and conducted due diligence with us to understand, amongst other things, the nature and details of the financial instruments, the relevant valuation work performed by us, and the methodology, assumptions and key parameters adopted for the valuation of such financial instruments; (ii) obtained and reviewed the underlying contracts for the Level 3 Financial Assets and Liabilities; (iii) obtained and reviewed the valuation reports prepared by the external valuer; (iv) interviewed the external valuer to understand, amongst other things, the methodology, assumptions and key parameters used by such external valuer; (v) obtained and reviewed the relevant internal policies and procedures of our Group; (vi) reviewed the relevant notes in the Accountant's Report as contained in Appendix I to this prospectus; and (vii) conducted due diligence with the reporting accountant in respect of the audit procedures they have conducted for the purpose of expressing an opinion on the historical financial information of our Group as a whole.

Based on the due diligence work conducted by the Joint Sponsors as stated above, and having considered the work performed by our management and audit procedures carried out by the reporting accountant, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis in relation to the Level 3 Financial Assets and Liabilities performed by us and the audit procedures carried out by the reporting accountant for the purpose of expressing an opinion on the historical financial information of our Group as a whole.

IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic harms the Chinese and global economy in general. Our results of operations have been and could continue to be affected directly or indirectly by uncertainties brought by the pandemic. Due to the COVID-19 pandemic, our business operations faced challenges from primarily the following areas: (i) city administrators focused on containing and combating the pandemic and diverted their budget accordingly, resulting in the temporary slowdown and delay of our Smart City software platforms deployment; (ii) the impact on our enterprise customers' business and financial performance which in turn restricted their ability to make further investment in technology including AI upgrade; and (iii) the reduced level of liquidity of certain customers, which resulted in delays in their payments to us and longer turnover days of our receivables. We also experienced certain difficulties in obtaining sufficient supplies in a timely manner, as well as in carrying out the physical delivery and deployment of our AI software-embedded hardware and services. We took a series of measures in response to the pandemic to protect our employees, including the temporary closure of our offices, remote working arrangements, and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations and incurred additional costs.

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Despite the negative impact of the COVID-19 pandemic, our revenue growth continued, though at a lower rate in 2020 than in 2019, primarily due to the policy and customer behavior changes that benefited our industry. The impact was particularly pronounced in China in 2020. As the pandemic continued to hit overseas markets, our international growth suffered, while China saw a growth recovery in the first half of 2021. In addition, our cross-industry and cross-region coverage allows us to be more resilient to uncertainties, and deliver stable business performance throughout cycles. The broad coverage paved a solid foundation for our business continuity and stable growth during the COVID-19 pandemic.

The COVID-19 pandemic is expected, in the long run, to accelerate the digital transformation of enterprises and city management, indicating more opportunities for the AI industry, especially under China's new national policy of "New Infrastructure" which aims to promote the development of the 5G network, large data centers and AI, among other things. In addition, as China and many other countries adopted various social distancing initiatives in response to the pandemic, many enterprises and city administrators turned to automated solutions in business and city management to reduce the level of human physical intervention required. Such trend created new demands for our AI software platforms. We also promptly reacted to the surging demand from public space management and healthcare by launching upgraded software products for contactless temperature measurement and medical image analysis. However, there remains significant uncertainties associated with the COVID-19 pandemic. See "Risk Factors — Risks Relating to Our Business — Our and our business partners' business operations have been adversely affected by the COVID-19 pandemic, and may in the future continue to be affected by the COVID-19 pandemic" for details. Since late July 2021, the delta variant of COVID-19 has recurred in several provinces across China. As of the Latest Practicable Date, substantially all of the Chinese cities had eased or lifted domestic travel restrictions and resumed normal social activities, work and production. The recurrence did not impose any material impact on our business operations and financial performance.

KEY OPERATING DATA

The total number of AI models that we have produced as of December 31, 2018, 2019 and 2020 and June 30, 2021 was 2,994, 4,146, 13,819 and 22,196, respectively.

Our total computing capacity was 0.3 exaFLOPS, 0.7 exaFLOPS, 0.8 exaFLOPS and 1.2 exaFLOPS as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively.

Smart Business: The number of customers increased from 539 in 2018 to 834 in 2019, further to 848 in 2020, and from 532 in the first half of 2020 to 635 in the first half of 2021.

Smart City: The number of cities served increased from 21 as of December 31, 2018 to 47 as of December 31, 2019, and further to 94 as of December 31, 2020 and 119 as of June 30, 2021.

Smart Life: The number of customers increased from 126 in 2018 to 211 in 2019, and further to 236 in 2020, and from 152 in the first half of 2020 to 155 in the first half of 2021.

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Smart Auto: The number of customers increased from 9 in 2018 to 19 in 2019, and further to 25 in 2020, and from 9 in the first half of 2020 to 13 in the first half of 2021.

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”). The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss which are carried at fair value.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 in Appendix I to this prospectus.

All relevant standards, amendments and interpretations to the existing standards that are effective during the Track Record Period have been adopted by us consistently throughout the Track Record Period.

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets out a summary of our results of operations for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|--|-------------------------|----------------|------------------|----------------|-------------------|----------------|---------------------------|----------------|------------------|----------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| | (Unaudited) | | | | | | | | | |
| Revenue | 1,853.4 | 100.0 | 3,026.6 | 100.0 | 3,446.2 | 100.0 | 861.2 | 100.0 | 1,651.8 | 100.0 |
| Cost of sales | (806.6) | (43.5) | (1,307.4) | (43.2) | (1,014.1) | (29.4) | (240.3) | (27.9) | (446.7) | (27.0) |
| Gross profit | 1,046.8 | 56.5 | 1,719.2 | 56.8 | 2,432.1 | 70.6 | 620.9 | 72.1 | 1,205.1 | 73.0 |
| Research and development expenses ... | (848.7) | (45.9) | (1,916.0) | (63.3) | (2,453.9) | (71.3) | (1,219.5) | (141.6) | (1,771.7) | (107.3) |
| Selling expenses | (204.7) | (11.0) | (453.2) | (15.0) | (536.5) | (15.6) | (238.1) | (27.6) | (292.4) | (17.7) |
| Administrative expenses | (452.5) | (24.4) | (765.7) | (25.3) | (1,589.5) | (46.1) | (1,037.5) | (120.5) | (1,443.0) | (87.4) |
| Net impairment losses on financial assets | (60.7) | (3.3) | (278.1) | (9.2) | (522.0) | (15.1) | (227.2) | (26.4) | (178.7) | (10.8) |
| Other income | 206.7 | 11.2 | 252.8 | 8.4 | 352.8 | 10.2 | 42.2 | 4.9 | 123.6 | 7.5 |
| Other (losses)/gains, net | (25.7) | (1.4) | (165.5) | (5.5) | 505.3 | 14.7 | (108.2) | (12.6) | 206.4 | 12.5 |
| Operating loss | (338.8) | (18.3) | (1,606.5) | (53.1) | (1,811.7) | (52.6) | (2,167.4) | (251.7) | (2,150.7) | (130.2) |
| Finance income, net | 75.8 | 4.1 | 118.2 | 3.9 | 62.4 | 1.8 | 27.8 | 3.2 | 74.8 | 4.5 |
| Share of losses of investments accounted for using the equity method | (11.2) | (0.6) | (3.1) | (0.1) | (6.1) | (0.2) | (2.0) | (0.2) | (3.4) | (0.2) |
| Fair value losses of preferred shares and other financial liabilities | (3,182.0) | (171.7) | (3,681.5) | (121.6) | (10,563.6) | (306.5) | (3,341.6) | (388.0) | (1,713.6) | (103.7) |
| Loss before income tax | (3,456.2) | (186.5) | (5,172.9) | (170.9) | (12,319.0) | (357.5) | (5,483.2) | (636.7) | (3,792.9) | (229.6) |
| Income tax credit | 23.5 | 1.3 | 205.2 | 6.8 | 160.7 | 4.7 | 150.4 | 17.5 | 80.0 | 4.8 |
| Loss for the year/period | (3,432.7) | (185.2) | (4,967.7) | (164.1) | (12,158.3) | (352.8) | (5,332.8) | (619.2) | (3,712.9) | (224.8) |
| Loss is attributable to: | | | | | | | | | | |
| Owners of the Company | (3,427.8) | (184.9) | (4,962.5) | (164.0) | (12,158.2) | (352.8) | (5,323.8) | (618.2) | (3,702.6) | (224.2) |
| Non-controlling interests | (4.9) | (0.3) | (5.2) | (0.1) | (0.1) | — | (9.0) | (1.0) | (10.3) | (0.6) |
| | (3,432.7) | (185.2) | (4,967.7) | (164.1) | (12,158.3) | (352.8) | (5,332.8) | (619.2) | (3,712.9) | (224.8) |

Non-IFRS measures

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use EBITDA/adjusted EBITDA (non-IFRS measure) and adjusted net loss (non-IFRS measure) 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 period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. 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

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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.

We define EBITDA as loss before income tax for the period adjusted for finance income and depreciation and amortization expenses. We add back fair value losses of preferred shares and other financial liabilities and share-based compensation expenses to EBITDA to derive adjusted EBITDA. We have made the following adjustments consistently during the Track Record Period complying with Guidance Letter HKEX-GL103-19 issued by the Stock Exchange:

- Fair value changes of preferred shares and other financial liabilities mainly represent changes in the fair value of the preferred shares, convertible liabilities and warrant liabilities issued by us and relate to changes in our valuation. Fair value changes of the preferred shares and other financial liabilities are not directly related to our ability to generate revenue from our daily operations, and we do not expect to record any further fair value changes of the preferred shares and other financial liabilities as (i) convertible liabilities have been converted to preferred shares liabilities during the Track Record Period; (ii) preferred shares liabilities will be redesignated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing; and (iii) warrant liability has been settled during the six months ended June 30, 2021.
- Share-based compensation expenses represent the non-cash employee benefit expenses incurred in connection with our Pre-IPO RSU Plan and Pre-IPO ESOP. Such expenses in any specific period are not expected to result in future cash payments and are not indicative of our core operating results.
- Share-based compensation to a preferred shareholder represents the non-cash expenses incurred in connection with a preferred shareholder. Such expenses are not expected to result in future cash payments, nonrecurring and are not indicative of our core operating results.

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

| | Year ended December 31, | | | Six months ended June 30, | |
|---|-------------------------|------------------|-------------------|------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| | | | | (Unaudited) | |
| Reconciliation of loss before income tax to adjusted EBITDA (non-IFRS measure) | | | | | |
| Loss before income tax | (3,456.2) | (5,172.9) | (12,319.0) | (5,483.2) | (3,792.9) |
| Add: | | | | | |
| Finance income, net | (75.8) | (118.2) | (62.4) | (27.8) | (74.8) |
| Depreciation and amortization | 159.5 | 377.5 | 569.7 | 276.2 | 301.4 |
| EBITDA (Non-IFRS measure) | (3,372.5) | (4,913.6) | (11,811.7) | (5,234.8) | (3,566.3) |
| Add: | | | | | |
| Fair value losses of preferred shares and other financial liabilities | 3,182.0 | 3,681.5 | 10,563.6 | 3,341.6 | 1,713.6 |
| Share-based compensation expenses | 15.1 | 131.0 | 887.0 | 840.5 | 1,421.0 |
| Share based compensation to a preferred shareholder | 85.6 | — | — | — | — |
| Adjusted EBITDA (non-IFRS measure) | (89.8) | (1,101.1) | (361.1) | (1,052.7) | (431.7) |

We define adjusted net loss (non-IFRS measure) as net loss for the period adjusted by adding back fair value losses of preferred shares and other financial liabilities and share-based compensation expenses. For the same reasons as stated above, we have made the adjustments consistently during the Track Record Period complying with Guidance Letter HKEX-GL103-19 issued by the Stock Exchange. The following table reconciles our adjusted net loss for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is net loss for the periods:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|-------------------------|------------------|----------------|------------------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| | | | | (Unaudited) | |
| Reconciliation of net loss to adjusted net loss (non-IFRS measure) | | | | | |
| Net losses for the year/period | (3,432.7) | (4,967.7) | (12,158.3) | (5,332.8) | (3,712.9) |
| Add: | | | | | |
| Fair value losses of preferred shares and other financial liabilities | 3,182.0 | 3,681.5 | 10,563.6 | 3,341.6 | 1,713.6 |
| Share-based compensation expenses | 15.1 | 131.0 | 887.0 | 840.5 | 1,421.0 |
| Share-based compensation to a preferred shareholder | 85.6 | — | — | — | — |
| Adjusted net loss (non-IFRS measure) | (150.0) | (1,155.2) | (707.7) | (1,150.7) | (578.3) |

During the Track Record Period, we incurred net losses primarily due to (i) fair value losses of preferred shares and other financial liabilities (ii) increased research and development expenses, as we continued to expand our research and development team; and (iii) share-based compensation

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expenses to our employees. We expect to record increased net losses in 2021 and may continue to incur net losses in the short term, as we are in the stage of expanding our business and operations in the rapidly growing AI software market, and are continuously investing in research and development, especially our universal AI infrastructure, in expectation that such investments will improve our operating leverage in the long run. See “Risk Factors — We have incurred significant operating losses during the Track Record Period, and may not be able to achieve or subsequently maintain profitability in the future, and we had negative equity or net deficit during the Track Record Period.”

During the Track Record Period, we have achieved improved operating leverage by improving our cost structure and increasing economies of scale. Leveraging our proprietary universal AI infrastructure SenseCore, which provides strong support for our talents to improve their work efficiency and quality, we expect to continuously reduce the marginal cost for production of AI models. Furthermore, as we expand our product and service offerings, we have gained more flexibility to promote different sets of our products and services and improve our cost structure. In 2018, 2019, 2020 and the first half of 2021, our gross profit amounted to RMB1,046.8 million, RMB1,719.2 million, RMB2,432.1 million and RMB1,205.1 million, respectively, corresponding to gross profit margin of 56.5%, 56.8%, 70.6% and 73.0%, respectively.

Revenue

The following table sets out a breakdown of our revenue by streams in absolute amounts and as percentages of our revenue for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---------------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| | | | | | | | (Unaudited) | | | |
| Revenue | | | | | | | | | | |
| Smart Business | 853.9 | 46.1 | 1,203.1 | 39.8 | 1,485.0 | 43.1 | 406.6 | 47.2 | 647.1 | 39.2 |
| Smart City ⁽¹⁾ | 530.4 | 28.6 | 1,270.7 | 41.9 | 1,368.9 | 39.7 | 231.3 | 26.9 | 786.3 | 47.6 |
| Smart Life | 330.3 | 17.8 | 413.5 | 13.7 | 433.9 | 12.6 | 155.8 | 18.1 | 147.8 | 8.9 |
| Smart Auto | 138.8 | 7.5 | 139.3 | 4.6 | 158.4 | 4.6 | 67.5 | 7.8 | 70.6 | 4.3 |
| Total | 1,853.4 | 100.0 | 3,026.6 | 100.0 | 3,446.2 | 100.0 | 861.2 | 100.0 | 1,651.8 | 100.0 |

Note:

(1) End users of Smart City are primarily municipal governments and their departments.

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The following table sets out a breakdown of our revenue by geographical locations in absolute amounts and as percentages of our revenue for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|-----------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| | (Unaudited) | | | | | | | | | |
| Mainland China | 1,533.7 | 82.8 | 2,551.4 | 84.3 | 2,684.1 | 77.9 | 457.7 | 53.1 | 1,413.0 | 85.5 |
| Northeast Asia | 201.4 | 10.9 | 188.9 | 6.2 | 443.7 | 12.9 | 227.2 | 26.4 | 203.0 | 12.3 |
| Southeast Asia | 84.9 | 4.5 | 257.3 | 8.5 | 192.2 | 5.5 | 94.7 | 11.0 | 21.7 | 1.3 |
| Others ⁽¹⁾ | 33.4 | 1.8 | 29.0 | 1.0 | 126.2 | 3.7 | 81.6 | 9.5 | 14.1 | 0.9 |
| | <u>1,853.4</u> | <u>100.0</u> | <u>3,026.6</u> | <u>100.0</u> | <u>3,446.2</u> | <u>100.0</u> | <u>861.2</u> | <u>100.0</u> | <u>1,651.8</u> | <u>100.0</u> |

Note:

(1) Other geographical areas mainly represented Hong Kong China and Middle East.

Our revenue grew rapidly from RMB1,853.4 million in 2018 to RMB3,026.6 million in 2019, and further to RMB3,446.2 million in 2020. Furthermore, our revenue grew by 91.8% from RMB861.2 million in the six months ended June 30, 2020 to RMB1,651.8 million in the same period in 2021. Such increase was primarily attributable to: (i) our ever-expanding portfolio of products and services, which allows us to enter into more industry verticals, (ii) our technology capability to continuously develop new features, allowing us to increase customer spending; and (iii) our expansion in geographical coverage.

Smart Business

We offer SenseFoundry-Enterprise as our core software platform under Smart Business. We deliver software, hardware and/or services to enterprises directly or through systems integrators. See “Business — Our Software Platforms — Smart Business.” We charge licensing fees, as well as software subscription fees to a lesser extent, for access to SenseFoundry-Enterprise and other software products. In addition, we generate revenue from sales of AI software-embedded hardware products.

Smart City

We offer SenseFoundry to enable the digital transformation and management of cities. We serve the needs of cities by delivering our software primarily to systems integrators that deliver packages comprising software, hardware and services to city administrators. See “Business — Our Software Platforms — Smart City.” We charge licensing fees, as well as software subscription fees to a lesser extent, for access to SenseFoundry and other software products. In addition, we generate revenue from sales of AI software-embedded hardware products.

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Smart Life

We offer SenseME, SenseMARS and SenseCare empowering IoT devices, Metaverse and smart healthcare, respectively. We primarily offer software to customers including mobile phone manufacturers and Internet app and content providers, and mainly charge licensing fees or shipment-based royalties for providing AI software functions. We also generate revenue by providing R&D services under Smart Life, see “Business — Our Software Platforms — Smart Life.”

Smart Auto

We offer SenseAuto as our intelligent automotive application infrastructure for customers in the automotive industry. Autonomous driving is still at the early stages of commercialization. We provide SenseCore capabilities as an AI-as-a-Service offering and charge a service fee. We also start to offer software and AI software-embedded hardware to automobile companies, and charge them on a shipment basis. See “Business — Our Software Platforms — Smart Auto.”

Cost of sales

Our cost of sales primarily consists of hardware costs and subcontracting service fees. Hardware costs are primarily costs of inventories sold including servers, components and semiconductors. Subcontracting service fees are primarily fees paid for outsourcing certain basic installation and maintenance services to third parties.

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 periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| | (Unaudited) | | | | | | | | | |
| Hardware costs and subcontracting service fees . . . | 766.8 | 95.1 | 1,228.2 | 93.9 | 909.5 | 89.7 | 204.9 | 85.3 | 383.0 | 85.7 |
| Server operation and cloud-based service fees | 10.3 | 1.3 | 32.2 | 2.5 | 1.4 | 0.1 | 0.2 | 0.1 | 0.9 | 0.2 |
| Employee benefit expenses | 4.1 | 0.5 | 13.8 | 1.1 | 57.0 | 5.6 | 17.9 | 7.4 | 24.1 | 5.4 |
| Other expenses | 25.4 | 3.1 | 33.2 | 2.5 | 46.2 | 4.6 | 17.3 | 7.2 | 38.7 | 8.7 |
| Total | 806.6 | 100.0 | 1,307.4 | 100.0 | 1,014.1 | 100.0 | 240.3 | 100.0 | 446.7 | 100.0 |

During the Track Record Period, our hardware costs and subcontracting service fees as a percentage of cost of sales decreased from 95.1% in 2018 and 93.9% in 2019 to 89.7% in 2020 and 85.7% in the six months ended June 30, 2021, respectively. Such costs as a percentage of revenue decreased from 41.4% in 2018 and 40.6% in 2019 to 26.4% in 2020 and 23.2% in the six months ended June 30, 2021, respectively. The decrease was primarily due to our strategy to prioritize standardized software offerings and decrease our procurement of hardware from third parties.

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Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefit expenses (primarily including salaries and bonuses and share-based compensation expenses); (ii) professional service and other consulting fees, which are primarily paid for outsourcing certain rudimentary design and development activities; and (iii) depreciation and amortization expenses. The following table sets out a breakdown of the major components of our research and development expenses for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|--|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| | (Unaudited) | | | | | | | | | |
| Employee benefit expenses | 512.7 | 60.4 | 1,116.4 | 58.3 | 1,569.3 | 63.9 | 820.8 | 67.2 | 1,285.3 | 72.5 |
| Professional service and other consulting fees | 65.8 | 7.8 | 312.4 | 16.3 | 327.7 | 13.4 | 136.0 | 11.2 | 168.2 | 9.5 |
| Depreciation and amortization | 75.9 | 8.9 | 184.0 | 9.6 | 286.4 | 11.7 | 135.9 | 11.1 | 160.7 | 9.1 |
| Server operation and cloud-based service fees | 72.1 | 8.5 | 140.2 | 7.3 | 148.4 | 6.0 | 73.2 | 6.0 | 94.1 | 5.3 |
| Research and development tools and consumables | 9.3 | 1.1 | 20.7 | 1.1 | 29.5 | 1.2 | 9.3 | 0.8 | 18.2 | 1.0 |
| Conferences and traveling expenses | 33.0 | 3.9 | 53.4 | 2.8 | 31.3 | 1.3 | 10.6 | 0.9 | 24.9 | 1.4 |
| Data labeling fees | 76.7 | 9.0 | 83.2 | 4.3 | 59.2 | 2.4 | 32.5 | 2.7 | 19.3 | 1.1 |
| Other expenses | 3.2 | 0.4 | 5.7 | 0.3 | 2.1 | 0.1 | 1.2 | 0.1 | 1.0 | 0.1 |
| Total | 848.7 | 100.0 | 1,916.0 | 100.0 | 2,453.9 | 100.0 | 1,219.5 | 100.0 | 1,771.7 | 100.0 |

Selling Expenses

Our selling expenses primarily consist of (i) employee benefit expenses (primarily including salaries and bonuses and share-based compensation expenses); and (ii) marketing and traveling expenses. We also incurred professional services and other consulting fees, which were primarily paid to external consultants for sales and marketing, as well as outsourced pre-sales support of product demonstration. The following table sets forth a breakdown of the major components of our selling expenses for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|--|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| | (Unaudited) | | | | | | | | | |
| Employee benefit expenses | 142.1 | 69.5 | 322.0 | 71.0 | 404.9 | 75.4 | 188.1 | 79.0 | 232.6 | 79.5 |
| Marketing and traveling expenses | 49.3 | 24.1 | 95.2 | 21.0 | 88.4 | 16.5 | 36.9 | 15.5 | 39.3 | 13.4 |
| Depreciation and amortization | 0.9 | 0.4 | 10.9 | 2.4 | 15.8 | 2.9 | 7.6 | 3.2 | 10.7 | 3.7 |
| Professional services and other consulting fees | 4.8 | 2.3 | 11.7 | 2.6 | 17.7 | 3.3 | 2.4 | 1.0 | 6.6 | 2.3 |
| Utilities, property management and administrative expenses | 7.3 | 3.6 | 12.5 | 2.8 | 7.8 | 1.5 | 2.9 | 1.2 | 2.0 | 0.7 |
| Other expenses | 0.3 | 0.1 | 0.9 | 0.2 | 1.9 | 0.4 | 0.2 | 0.1 | 1.2 | 0.4 |
| Total | 204.7 | 100.0 | 453.2 | 100.0 | 536.5 | 100.0 | 238.1 | 100.0 | 292.4 | 100.0 |

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Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses (primarily including salaries and bonuses and share-based compensation expenses); (ii) depreciation and amortization expenses; and (iii) professional service and other consulting fees, which were primarily paid to professional institutions for patents registration and financing activities. The following table sets out a breakdown of the major components of our administrative expenses for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|--|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| | (Unaudited) | | | | | | | | | |
| Employee benefit expenses | 149.0 | 32.9 | 335.9 | 43.9 | 931.3 | 58.5 | 751.2 | 72.4 | 1,148.8 | 79.7 |
| Depreciation and amortization | 82.7 | 18.3 | 182.6 | 23.8 | 267.5 | 16.8 | 132.7 | 12.8 | 130.0 | 9.0 |
| Professional service and other consulting fees | 72.0 | 15.9 | 110.2 | 14.4 | 229.7 | 14.5 | 87.8 | 8.5 | 88.5 | 6.1 |
| Utilities, property management and administrative expenses | 40.9 | 9.0 | 92.5 | 12.1 | 102.6 | 6.5 | 48.0 | 4.6 | 32.1 | 2.2 |
| Conferences and traveling expenses | 16.3 | 3.6 | 31.3 | 4.1 | 19.7 | 1.2 | 8.0 | 0.8 | 11.3 | 0.8 |
| Auditor's remuneration for audit service | 2.6 | 0.6 | 3.7 | 0.5 | 4.4 | 0.3 | — | — | — | — |
| Share based compensation to a preferred shareholder | 85.6 | 18.9 | — | — | — | — | — | — | — | — |
| Listing expenses | — | — | — | — | — | — | — | — | 23.5 | 1.6 |
| Other expenses | 3.4 | 0.8 | 9.5 | 1.2 | 34.3 | 2.2 | 9.8 | 0.9 | 8.8 | 0.6 |
| Total | 452.5 | 100.0 | 765.7 | 100.0 | 1,589.5 | 100.0 | 1,037.5 | 100.0 | 1,443.0 | 100.0 |

Net Impairment Losses on Financial Assets

We evaluate the credit risk of financial assets, primarily including trade receivables and other receivables, by measuring expected credit losses under IFRS 9, with lifetime expected loss allowance or 12-month expected loss allowance depending on whether there has been a significant increase in credit risk since initial recognition. See “— Financial Risk Disclosure — Credit Risk.” 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 profit. See Note 3.1(b) of Appendix I to this prospectus.

We had net impairment losses on financial assets of RMB60.7 million, RMB278.1 million, RMB522.0 million, RMB227.2 million and RMB178.7 million in 2018, 2019, 2020 and the six months ended June 30, 2020 and 2021, respectively.

Other Income

Our other income primarily consists of (i) government grants for technology innovations and research and development efforts; and (ii) value added-tax refund for sales of self-developed

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software products which is typically a prescribed percentage of our revenue and is of a recurring nature.

We had other income of RMB206.7 million, RMB252.8 million, RMB352.8 million, RMB42.2 million and RMB123.6 million in 2018, 2019, 2020 and the six months ended June 30, 2020 and 2021, respectively. We recognized government grants attributable to the outbreak of COVID-19 in other income, being RMB12.5 million and RMB2.9 million in 2020 and the six months ended June 30, 2021, respectively.

Other (Losses)/Gains, Net

The following table sets out a breakdown of the major components of our other (losses)/gains for the periods indicated:

| | Year ended | | | Six months ended June 30, | |
|--|----------------------|-----------------------|---------------------|---------------------------|---------------------|
| | December 31, | | | | |
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| | | | | (Unaudited) | |
| Fair value gains/(losses) on financial assets at fair value through profit or loss . . . | 70.5 | (118.1) | 170.7 | (51.2) | 147.9 |
| Fair value losses on foreign exchange forward contracts | — | — | (72.7) | (0.2) | — |
| Gain on disposal of an associate | 2.2 | — | — | — | — |
| Realization of gains from downstream transactions from associates ⁽¹⁾ | 0.2 | 0.6 | 0.2 | 0.1 | 0.1 |
| Donations | (59.6) | (25.2) | (3.7) | (0.8) | (2.9) |
| Net foreign exchange (losses)/gains | (38.6) | (16.8) | 407.5 | (57.6) | 63.1 |
| Losses on disposal of property, plant and equipment | (0.1) | (0.4) | (1.6) | (0.8) | (3.6) |
| Loss on disposal of a subsidiary | — | (0.4) | — | — | — |
| Others | (0.3) | (5.2) | 4.9 | 2.3 | 1.8 |
| Total | <u>(25.7)</u> | <u>(165.5)</u> | <u>505.3</u> | <u>(108.2)</u> | <u>206.4</u> |

Note:

- (1) The realization of gains from downstream transactions from associates represented the recognition of the unrealized gains generated from the transfer of several intellectual properties to certain associates of us previously. The unrealized gains were recognized over the periods and in the proportions in which amortization expenses on those intellectual properties were recognized.

Our net other gains or losses primarily resulted from (i) fair value gains or losses on financial assets at fair value through profit or loss, which were mainly our debt and minority equity investment in certain entities and funds; (ii) net foreign exchange losses or gains; (iii) fair value losses on foreign exchange forward contracts; and (iv) donations.

Fair Value Losses of Preferred Shares and Other Financial Liabilities

Our fair value losses of preferred shares and other financial liabilities include changes in fair value of preferred shares and other financial liabilities and are generally related to the increase in

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the valuation of our Company. We had fair value losses of preferred shares and other financial liabilities of RMB3,182.0 million, RMB3,681.5 million, RMB10,563.6 million, RMB3,341.6 million and RMB1,713.6 million in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. See Note 2.21 and Note 30 of Appendix I to this prospectus.

Finance Income, Net

Our finance income primarily consists of interest income from bank deposits. Our finance costs primarily consist of interest expenses on bank borrowings.

| | Year ended December 31, | | | Six months ended June 30, | |
|---|-------------------------|---------------------|--------------------|---------------------------|--------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| | | | | (Unaudited) | |
| Interest income | 102.8 | 266.3 | 172.0 | 95.0 | 91.5 |
| Accretion income for long-term receivables | 2.6 | 1.8 | 2.9 | 1.5 | 5.1 |
| Interest expenses on bank borrowings | (21.6) | (129.9) | (95.7) | (60.3) | (14.3) |
| Interest expenses on long-term payables | — | — | — | — | (1.6) |
| Interest and finance charges paid/payable for lease liabilities | (8.0) | (20.0) | (16.8) | (8.4) | (5.9) |
| Finance income — net | <u>75.8</u> | <u>118.2</u> | <u>62.4</u> | <u>27.8</u> | <u>74.8</u> |

Income Tax Credit

We had income tax credit of RMB23.5 million, RMB205.2 million, RMB160.7 million, RMB150.4 million and RMB80.0 million in 2018, 2019, 2020 and the six months ended June 30, 2020 and 2021, respectively. The income tax expense or credit 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. We recorded income tax credit during the Track Record Period as a result of our net loss. See Notes 2.22 and 13 of Appendix I to this prospectus. Our Directors confirm that, during the Track Record Period and as of the Latest Practicable Date, our Group had been in compliance with relevant tax regulations in all material aspects, and there is no material tax-related dispute, penalty or pending proceeding against our Group initiated by the PRC tax authorities.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2021 Compared to Six months ended June 30, 2020

Revenue

Our total revenue increased by 91.8% from RMB861.2 million in the six months ended June 30, 2020 to RMB1,651.8 million in the six months ended June 30, 2021, primarily due to the growth in Smart Business and Smart City. Our revenue from Smart Life and Smart Auto had remained relatively stable in the six months ended June 30, 2020 and 2021.

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Our Smart Business revenue increased by 59.1% from RMB406.6 million in the six months ended June 30, 2020 to RMB647.1 million in the six months ended June 30, 2021, primarily due to (i) the expansion in our customer base for Smart Business with the number of customers increasing from 532 in the six months ended June 30, 2020 to 635 in the same period in 2021, as we upgraded our product offerings for our existing industry verticals, such as commercial space management and residential property management, and provided new features in areas such as safety management and facility maintenance; and (ii) increasing revenue from customers in infrastructure and transportation industries, as we developed our software platforms suitable for launch customers in these industry verticals.

Our Smart City revenue increased from RMB231.3 million in the six months ended June 30, 2020 to RMB786.3 million in the six months ended June 30, 2021, primarily due to (i) our expansion in domestic city coverage and stronger market penetration, largely driven by the recovery and increase in the demand for city management with the COVID-19 pandemic generally under control in the first half of 2021; and (ii) our expansion of offering and function upgrades to meet end users' growing demand for more comprehensive city management features.

Cost of Sales

Our cost of sales increased by 85.9% from RMB240.3 million in the six months ended June 30, 2020 to RMB446.7 million in the six months ended June 30, 2021. The increase in cost of sales was generally in line with the growth of our revenue.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 94.1% from RMB620.9 million in the six months ended June 30, 2020 to RMB1,205.1 million in the six months ended June 30, 2021. Our gross margin remained relatively stable, being from 72.1% in the six months ended June 30, 2020 to 73.0% in the same period in 2021.

Research and Development Expenses

Our research and development expenses increased by 45.3% from RMB1,219.5 million in the six months ended June 30, 2020 to RMB1,771.7 million in the six months ended June 30, 2021, primarily due to an increase in employee benefit expenses, which was due to (i) the expansion of our research and development team; and (ii) an increase in the share-based compensation expenses to our employees. Our research and development expenses as a percentage of our revenue decreased from 141.6% in the six months ended June 30, 2020 to 107.3% in the six months ended June 30, 2021. Such decrease was primarily due to the scale effect brought by SenseCore which improves our research and development efficiency. The share-based compensation expenses were RMB244.4 million and RMB464.6 million in the six months ended June 30, 2020 and 2021, respectively. Without regard to the effect of share-based compensation expenses, research and development expenses as a percentage of our revenue would have decreased from 113.2% in the six months ended June 30, 2020 to 79.1% in the six months ended June 30, 2021.

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Selling Expenses

Our selling expenses increased by 22.8% from RMB238.1 million in the six months ended June 30, 2020 to RMB292.4 million in the six months ended June 30, 2021, primarily due to an increase in the employee benefit expenses as a result of the expansion of our sales and marketing force. Our selling expenses as a percentage of our revenue decreased from 27.6% in the six months ended June 30, 2020 to 17.7% in the six months ended June 30, 2021.

Administrative Expenses

Our administrative expenses increased by 39.1% from RMB1,037.5 million in the six months ended June 30, 2020 to RMB1,443.0 million in the six months ended June 30, 2021, primarily due to an increase in the employee benefit expenses as a result of (i) an increase in the share-based compensation expenses to our management team and administrative staff; and (ii) the expansion of our administrative team to support our growing business. Our administrative expenses as a percentage of our revenue decreased from 120.5% in the six months ended June 30, 2020 to 87.4% in the six months ended June 30, 2021. The share-based compensation expenses were RMB573.4 million and RMB931.4 million in the six months ended June 30, 2020 and the same period in 2021, respectively. Without regard to the effect of share-based compensation expenses, administrative expenses as a percentage of our revenue decreased from 53.9% in the six months ended June 30, 2020 to 31.0% in the six months ended June 30, 2021.

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets remained stable, being RMB227.2 million in the six months ended June 30, 2020 and RMB178.7 million in the six months ended June 30, 2021.

Other Income

Other income increased significantly from RMB42.2 million in the six months ended June 30, 2020 to RMB123.6 million in the six months ended June 30, 2021, primarily due to an increase in the government grants.

Other (Losses)/Gains, Net

We had net other gains of RMB206.4 million in the six months ended June 30, 2021, which primarily included our fair value gains/(losses) on financial assets at fair value through profit or loss. We had net other losses of RMB108.2 million in six months ended June 30, 2020, primarily including fair value losses on financial assets at fair value through profit or loss of RMB51.2 million, and net foreign exchange losses of RMB57.6 million. We had net foreign exchange gains in the six months ended June 30, 2021 compared to net foreign exchange losses in the six months ended June 30, 2020 due to the fluctuation in exchange rate of RMB against USD.

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Finance Income, Net

Net finance income increased from RMB27.8 million in the six months ended June 30, 2020 to RMB74.8 million in the six months ended June 30, 2021, primarily due to a decrease in interest expenses as a result of decreased borrowings.

Fair Value Losses of Preferred Shares and Other Financial Liabilities

Fair value losses of preferred shares and other financial liabilities decreased significantly from RMB3,341.6 million in the six months ended June 30, 2020 to RMB1,713.6 million in the six months ended June 30, 2021, primarily due to a smaller increase in our valuation in the six months ended June 30, 2021 as compared to that in the six months ended June 30, 2020. See Note 30 in Appendix I to this prospectus.

Income Tax Credit

Income tax credit decreased by 46.8% from RMB150.4 million in the six months ended June 30, 2020 to RMB80.0 million in the six months ended June 30, 2021, primarily due to the decrease in deductible tax losses.

2020 Compared to 2019

Revenue

Our total revenue increased by 13.9% from RMB3,026.6 million in 2019 to RMB3,446.2 million in 2020, primarily due to the significant growth in Smart Business, accompanied by the growth of Smart City, Smart Life and Smart Auto, despite the impact of the COVID-19 pandemic.

Our Smart Business revenue increased by 23.4% from RMB1,203.1 million in 2019 to RMB1,485.0 million in 2020, primarily due to: (i) increased average spending of our customers, as we expanded our offerings and continued to upgrade the functions of SenseFoundry-Enterprise to cover more use cases across more scenarios to support customers' digitalization efforts; and (ii) our expansion in certain overseas markets, such as Northeast Asia. Specifically, utilizing our local partner's sales resources, we introduced and deployed our software platforms enabling contactless temperature measurement, among other features, in response to the COVID-19 outbreak for commercial space management in Japan. Our revenue was partially negatively affected by the COVID-19 pandemic which (i) delayed certain enterprise customers' AI spending; and (ii) impeded delivery and deployment of AI software-embedded hardware.

Our Smart City revenue increased by 7.7% from RMB1,270.7 million in 2019 to RMB1,368.9 million in 2020, primarily due to (i) our expansion in geographical coverage, in

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particular in overseas markets, such as Southeast Asia, where we leveraged our local sales and marketing team and provided our software platforms to facilitate local city management such as traffic optimization; and (ii) we expanded our offerings and continued to upgrade the functions of SenseFoundry to meet customers' growing demand for more comprehensive features, particularly the long-tail scenarios for city services and emergency response. Our revenue was negatively affected by the COVID-19 pandemic due to the delay in the deployment of certain Smart City operations with city administrators prioritizing counter-pandemic efforts.

Our Smart Life revenue increased by 4.9% from RMB413.5 million in 2019 to RMB433.9 million in 2020, primarily due to the expansion in our customer base for Smart Life across more industry verticals in 2020. In particular, we commenced AI sensors business with a strategic technology partner in 2020.

Our Smart Auto revenue increased by 13.7% from RMB139.3 million in 2019 to RMB158.4 million in 2020, as we entered into business relationships with several new customers on R&D collaboration for commercialization of SenseAuto Pilot products, leveraging our leading technological capabilities.

Cost of Sales

Our cost of sales decreased by 22.4% from RMB1,307.4 million in 2019 to RMB1,014.1 million in 2020. With our software platforms becoming increasingly compatible with a wider range of third-party hardware, we have strategically prioritized the expansion of our software offerings. This has resulted in lower hardware costs and contributed to the decrease in our cost of sales in 2020.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 41.5% from RMB1,719.2 million in 2019 to RMB2,432.1 million in 2020. Our gross margin increased from 56.8% in 2019 to 70.6% in 2020, primarily due to our strategic priority in expanding software offering. Generally, software products enjoy a higher gross margin than hardware products.

Research and Development Expenses

Our research and development expenses increased by 28.1% from RMB1,916.0 million in 2019 to RMB2,453.9 million in 2020, primarily due to an increase in employee benefit expenses, which was in line with the expansion of our research and development team. While our research and development expenses as a percentage of our revenue increased from 63.3% in 2019 to 71.3% in 2020, with a growing gross margin, our research and development expenses as a percentage of our gross profit decreased from 111.4% in 2019 to 100.9% in 2020.

Selling Expenses

Our selling expenses increased by 18.4% from RMB453.2 million in 2019 to RMB536.5 million in 2020, primarily due to an increase in the employee benefit expenses as a result of the expansion of

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our sales and marketing force, which was in line with the growth of our business. Our selling expenses as a percentage of our revenue remained relatively stable in 2019 and 2020.

Administrative Expenses

Our administrative expenses increased significantly from RMB765.7 million in 2019 to RMB1,589.5 million in 2020, primarily due to (i) an increase in employee benefit expenses as a result of an increase in the share-based compensation expenses to our employees (ii) an increase in professional service and other consulting fees, which mainly represented (a) an increase of RMB47.5 million in professional services related to patents registration, which was in line with our technological innovation, and (b) an increase of RMB33.5 million in services provided by professional institutions for financing activities. Our administrative expenses as a percentage of our revenue increased from 25.3% in 2019 to 46.1% in 2020. The share-based compensation expenses were RMB45.6 million and RMB568.2 million in 2019 and 2020, respectively. Without regard to the effect of share-based compensation expenses, administrative expenses as a percentage of our revenue would have increased from 23.8% in 2019 to 29.6% in 2020.

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets increased by 87.7% from RMB278.1 million in 2019 to RMB522.0 million in 2020, which was primarily due to the increase in our trade receivables from December 31, 2019 to December 31, 2020. See “— Discussion of Certain Key Balance Sheet Items — Trade, Other Receivables and Prepayments.”

Other Income

Other income increased by 39.6% from RMB252.8 million in 2019 to RMB352.8 million in 2020, primarily due to an increase in the government grants.

Other (Losses)/Gains, Net

We had net other gains of RMB505.3 million in 2020, primarily including (i) our net foreign exchange gains of RMB407.5 million and (ii) our fair value gains on financial assets at fair value through profit or loss of RMB170.7 million. We had net other losses of RMB165.5 million in 2019, primarily including fair value losses on financial assets at fair value through profit or loss of RMB118.1 million. We had net foreign exchange gains of RMB407.5 million in 2020 compared to net foreign exchange losses in 2019, primarily due to the unrealized foreign exchange gains on balances of offshore financial assets denominated in RMB, held by entities whose functional currency was HKD, derived from the increase of exchange rate of RMB against HKD by 6% in 2020.

Finance Income, Net

Net finance income decreased by 47.2% from RMB118.2 million in 2019 to RMB62.4 million in 2020, primarily due to a decrease in the market interest rate in 2020.

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Fair Value Losses of Preferred Shares and Other Financial Liabilities

Fair value losses of preferred shares and other financial liabilities increased significantly from RMB3,681.5 million in 2019 to RMB10,563.6 million in 2020, primarily because our valuation increased more in 2020 than in 2019, resulting in a larger increase in the fair value of the preferred shares. See Note 30 in Appendix I to this prospectus.

Income Tax Credit

Income tax credit remained relatively stable, being RMB160.7 million in 2020 compared to RMB205.2 million in 2019.

2019 Compared to 2018

Revenue

Our total revenue increased by 63.3% from RMB1,853.4 million in 2018 to RMB3,026.6 million in 2019, primarily due to increases in revenue from both Smart Business and Smart City. Our revenue from Smart Auto remained stable in 2018 and 2019.

Our Smart Business revenue increased by 40.9% from RMB853.9 million in 2018 to RMB1,203.1 million in 2019, primarily due to: (i) the expansion in our customer base for Smart Business in 2019, and the number of customers under our Smart Business increased from 539 in 2018 to 834 in 2019, as we expanded our offerings and continued to upgrade the functions to cover more use cases; and (ii) our expansion in geographical coverage, in particular in overseas markets, such as Southeast Asia where we introduced our SenseFoundry-Enterprise to meet the digital transformation needs of our customers.

Our revenue from Smart City increased significantly from RMB530.4 million in 2018 to RMB1,270.7 million in 2019, primarily because (i) we expanded our customer base, such as cities in Shandong and Yunnan provinces, and served a growing number of cities from 21 as of December 31, 2018 to 47 as of December 31, 2019; and (ii) we expanded and continuously upgraded our offering of SenseFoundry to meet the growing demand for AI-empowered Smart City management applications of customers, such as the needs to improve mobility and traffic management in cities.

Our revenue from Smart Life increased by 25.2% from RMB330.3 million in 2018 to RMB413.5 million in 2019, primarily due to the revenue increase of our new AI products, including healthcare and education applications.

Cost of Sales

Our cost of sales increased by 62.1% from RMB806.6 million in 2018 to RMB1,307.4 million in 2019, which was generally in line with the growth of our revenue.

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Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 64.2% from RMB1,046.8 million in 2018 to RMB1,719.2 million in 2019, and our gross margin remained stable, being 56.8% in 2019 compared to 56.5% in 2018.

Research and Development Expenses

Our research and development expenses increased significantly from RMB848.7 million in 2018 to RMB1,916.0 million in 2019, primarily due to the increasing investment in technology innovation and our R&D team to expand and enhance our AI infrastructure and software platforms. Our research and development expenses as a percentage of our revenue increased from 45.9% in 2018 to 63.3% in 2019.

Selling Expenses

Our selling expenses increased significantly from RMB204.7 million in 2018 to RMB453.2 million in 2019, primarily due to an increase in the employee benefit expenses as a result of the expansion of our sales and marketing force, which was in line with the growth of our business. Our selling expenses as a percentage of our revenue increased from 11.0% in 2018 to 15.0% in 2019.

Administrative Expenses

Our administrative expenses increased by 69.2% from RMB452.5 million in 2018 to RMB765.7 million in 2019, primarily due to an increase in employee benefit expenses as a result of increasing number of administrative staff to support our business growth, despite the fact that we had a one-off share-based compensation to preferred share holder in 2018. Our administrative expenses as a percentage of our revenue remained relatively stable, being 25.3% in 2019 compared to 24.4% in 2018.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets increased from RMB60.7 million in 2018 to RMB278.1 million in 2019, which was generally in line with the increases in our trade receivables and other receivables. See “— Discussion of Certain Key Balance Sheet Items — Trade, Other Receivables and Prepayments.”

Other Income

Our other income increased by 22.3% from RMB206.7 million in 2018 to RMB252.8 million in 2019, primarily due to an increase in government grants.

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Other (Losses)/Gains, Net

We had net other losses of RMB165.5 million in 2019, which primarily included fair value losses on financial assets at fair value through profit or loss of RMB118.1 million. We had net other losses of RMB25.7 million in 2018, primarily due to our donations of RMB59.6 million and net foreign exchange losses of RMB38.6 million, which were partially offset by fair value gains on financial assets at fair value through profit or loss of RMB70.5 million.

Finance Income, Net

Our net finance income increased by 55.9% from RMB75.8 million in 2018 to RMB118.2 million in 2019, primarily due to a significant increase in interest income, primarily due to an increase in restricted cash.

Fair Value Losses of Preferred Shares and Other Financial Liabilities

Our fair value losses of preferred shares and other financial liabilities increased by 15.7% from RMB3,182.0 million in 2018 to RMB3,681.5 million in 2019, primarily because our valuation increased more in 2019 than in 2018, resulting in a larger increase in the fair value of the preferred shares. See Note 30 in Appendix I to this prospectus.

Income Tax Credit

Our income tax credit increased significantly from RMB23.5 million in 2018 to RMB205.2 million in 2019 primarily as a result of our recognition of deferred tax assets in 2019.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets out selected information from our consolidated statements of financial position as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|--------------------|-------------------|-------------------|-------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Total non-current assets | 3,193.4 | 5,716.9 | 6,752.5 | 7,977.6 |
| Total current assets | 13,754.8 | 18,231.2 | 31,726.1 | 24,254.0 |
| Total assets | 16,948.2 | 23,948.1 | 38,478.6 | 32,231.6 |
| Total deficits | (5,364.4) | (10,654.3) | (20,932.6) | (22,961.0) |
| Total non-current liabilities | 19,165.1 | 27,746.6 | 49,588.7 | 53,287.1 |
| Total current liabilities | 3,147.5 | 6,855.8 | 9,822.5 | 1,905.5 |
| Total liabilities | 22,312.6 | 34,602.4 | 59,411.2 | 55,192.6 |
| Total deficits and liabilities | 16,948.2 | 23,948.1 | 38,478.6 | 32,231.6 |
| Net current assets | 10,607.3 | 11,375.4 | 21,903.6 | 22,348.5 |

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Our net current assets increased from RMB21,903.6 million as of December 31, 2020 to RMB22,348.5 million as of June 30, 2021, primarily due to (i) a decrease in total current liabilities mainly resulting from decreased amount due to preferred shareholders, partially offset by (ii) a decrease in total current assets as a result of decreased amount due from preferred shareholders.

The following table sets out a breakdown of our current assets and liabilities as of the dates indicated:

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|--------------------|-----------------|-----------------|-----------------|----------------------------|
| | 2018 | 2019 | 2020 | 2021 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million (Unaudited) |
| Current assets | | | | | |
| Inventories | 117.3 | 430.1 | 715.5 | 667.2 | 736.2 |
| Contract assets | 5.0 | 0.8 | 22.5 | 21.6 | 19.5 |
| Trade, other receivables and prepayments | 1,467.2 | 4,678.1 | 4,583.5 | 4,036.8 | 4,563.5 |
| Amount due from preferred shareholders | 1,391.5 | 878.9 | 8,593.1 | — | — |
| Restricted cash | 2,139.0 | 4,284.3 | 493.4 | 477.5 | 1.1 |
| Financial assets at fair value through profit or loss | — | — | — | 2,186.4 | 1,104.9 |
| Term deposits | 1,407.7 | 1,286.1 | 5,890.2 | 7,938.7 | 5,591.9 |
| Cash and cash equivalents | 7,227.1 | 6,672.9 | 11,427.9 | 8,925.8 | 10,382.6 |
| Total current assets | 13,754.8 | 18,231.2 | 31,726.1 | 24,254.0 | 22,399.7 |
| Current liabilities | | | | | |
| Borrowings | 1,557.2 | 3,356.5 | 593.6 | 212.4 | 0.4 |
| Trade and other payables | 887.1 | 3,103.3 | 1,724.5 | 1,438.5 | 1,859.4 |
| Amount due to preferred shareholders | 494.8 | 92.2 | 5,206.0 | — | — |
| Lease liabilities | 131.1 | 123.0 | 109.5 | 109.6 | 130.4 |
| Contract liabilities | 70.2 | 152.9 | 244.1 | 138.6 | 162.7 |
| Current income tax liabilities | 1.5 | 20.2 | 33.2 | 6.4 | 5.6 |
| Preferred share liabilities | — | — | 1,897.6 | — | — |
| Other financial liabilities | 5.6 | 7.7 | 14.0 | — | — |
| Total current liabilities | 3,147.5 | 6,855.8 | 9,822.5 | 1,905.5 | 2,158.5 |
| Net current assets | 10,607.3 | 11,375.4 | 21,903.6 | 22,348.5 | 20,241.2 |

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The following table sets out a breakdown of our non-current assets and liabilities as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|------------------------|------------------------|------------------------|------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Non-current assets | | | | |
| Property, plant and equipment | 585.2 | 1,893.9 | 1,906.5 | 2,226.1 |
| Right-of-use assets | 454.8 | 404.2 | 335.9 | 278.6 |
| Intangible assets | 39.6 | 139.7 | 108.0 | 93.5 |
| Contract assets | 0.3 | 3.3 | 2.7 | 1.4 |
| Investments accounted for using the equity method | 60.7 | 59.1 | 70.3 | 67.0 |
| Deferred income tax assets | 39.9 | 261.2 | 450.3 | 538.9 |
| Financial assets at fair value through profit or loss | 1,851.4 | 2,901.4 | 3,738.6 | 4,500.6 |
| Long-term receivables | 96.9 | 46.2 | 127.5 | 221.1 |
| Other non-current assets | 64.6 | 7.9 | 12.7 | 50.4 |
| Total non-current assets | <u>3,193.4</u> | <u>5,716.9</u> | <u>6,752.5</u> | <u>7,977.6</u> |
| Non-current liabilities | | | | |
| Borrowings | — | — | 423.0 | 409.5 |
| Lease liabilities | 334.6 | 295.7 | 184.1 | 134.4 |
| Deferred income tax liabilities | 8.3 | 5.5 | 7.6 | 10.4 |
| Contract liabilities | — | — | 9.3 | 19.2 |
| Deferred revenue | 61.4 | 59.1 | 349.6 | 385.9 |
| Preferred share liabilities | 18,506.2 | 27,105.7 | 48,288.0 | 52,037.0 |
| Long-term payables | — | — | 66.1 | 32.3 |
| Other financial liabilities | 254.6 | — | — | — |
| Other non-current liabilities | — | 280.6 | 261.0 | 258.4 |
| Total non-current liabilities | <u>19,165.1</u> | <u>27,746.6</u> | <u>49,588.7</u> | <u>53,287.1</u> |

We recorded net liabilities as of December 31, 2018, 2019, 2020 and June 30, 2021, primarily due to preferred share liabilities, which mainly represented the increases in the fair value of our preferred shares that we issued under our financing arrangements. We expect to achieve a net assets position upon Listing, as the convertible redeemable preferred shares will be re-designated from financial liabilities to equity as a result of the automatic conversion into ordinary shares.

Trade, Other Receivables and Prepayments

Our trade, other receivables and prepayments increased significantly from RMB1,467.2 million as of December 31, 2018 to RMB4,678.1 million as of December 31, 2019. Our trade, other receivables and prepayments remained relatively stable as of December 31, 2019 and 2020 and June 30, 2021, being RMB4,678.1 million, RMB4,583.5 million and RMB4,036.8 million, respectively.

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Trade Receivables

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

| | As of December 31, | | | As of June 30, |
|----------------------------------|--------------------|-------------|-------------|----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Trade Receivables | 1,331.6 | 2,614.9 | 3,748.4 | 3,926.2 |
| — Due from related parties | 279.8 | 159.2 | 186.7 | 146.1 |
| — Due from third parties | 1,051.8 | 2,455.7 | 3,561.7 | 3,780.1 |
| Provision for impairment | (102.0) | (211.6) | (609.8) | (784.8) |
| Total | 1,229.6 | 2,403.3 | 3,138.6 | 3,141.4 |

Our net trade receivables increased by 95.5% from RMB1,229.6 million as of December 31, 2018 to RMB2,403.3 million as of December 31, 2019, further increased by 30.6% to RMB3,138.6 million as of December 31, 2020. Such increasing trend was generally in line with the growth of our business. Our net trade receivables remained stable as of June 30, 2021, being RMB3,141.4 million, due to the increase in the collection of trade receivables. Our net trade receivables from Smart City, defined as the net trade receivables from customers whose primary source of revenue throughout the Track Record Period was from Smart City, were RMB491.2 million, RMB1,303.6 million, RMB2,113.9 million and RMB2,164.7 million, as of December 31, 2018, 2019, 2020, and June 30, 2021, respectively. Our net trade receivables from non-Smart City revenue streams, defined as the remaining net trade receivables, were RMB738.4 million, RMB1,099.7 million, RMB1,024.7 million and RMB976.7 million as of the same dates, respectively.

The aging analysis of the trade receivables as at the balance sheet dates based on date of revenue recognition was as follows:

| | As of December 31, | | | As of June 30, |
|--------------------------|--------------------|-------------|-------------|----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Up to 6 months | 1,078.9 | 1,631.5 | 2,078.0 | 1,260.5 |
| 6 months to 1 year | 166.9 | 576.7 | 232.0 | 1,377.0 |
| 1 to 2 years | 75.4 | 378.5 | 1,152.1 | 898.5 |
| 2 to 3 years | 10.2 | 18.1 | 259.0 | 335.3 |
| More than 3 years | 0.2 | 10.1 | 27.3 | 54.9 |
| Total | 1,331.6 | 2,614.9 | 3,748.4 | 3,926.2 |

The following table sets out the number of our trade receivables turnover days for the periods indicated:

| | Year ended December 31, | | | Six months ended |
|--|-------------------------|------|------|------------------|
| | 2018 | 2019 | 2020 | June 30, |
| | 2018 | 2019 | 2020 | 2021 |
| Trade receivables turnover days ⁽¹⁾ | 157 | 219 | 293 | 342 |

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Note:

- (1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables balance divided by revenue for the same period and multiplied by 365 days for a full-year period or 180 days for a six-month period.

We had relatively long and increasing trade receivables turnover days during the Track Record Period. Our trade receivables turnover days increased from 157 days in 2018 to 219 days in 2019, and further increased to 293 days in 2020 and 342 days in the six months ended June 30, 2021, primarily because a significant portion of our revenue is derived from the public sector, which typically features a long payment cycle as required by their internal financial management and payment approval processes. The COVID-19 pandemic also negatively affected the budget and liquidity of our customers, resulting in the further increase in trade receivables turnover days. Our net trade receivables turnover days for Smart City, calculated using our average net trade receivables from Smart City and Smart City revenue, were 203 days, 258 days, 456 days and 490 days in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. Our net trade receivables turnover days for non-Smart City revenue streams, calculated using the average remaining net trade receivables and revenue from non-Smart City revenue streams, were 138 days, 191 days, 187 days and 208 days in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. While revenue from Smart City significantly increased in 2019 both in absolute amount and as percentage of the total revenue, the collection of which was more heavily impacted by the COVID-19 pandemic in 2020, when city administrators focused on containing and combating the COVID-19 pandemic and diverted their budget accordingly. Our provision for impairment increased during the Track Record Period in line with the increase of trade receivables.

We have assessed the recoverability of the relevant outstanding trade receivables. To manage risks arising from trade receivables, we maintain frequent communications with our customers to ensure effective credit control. The good credit history of our customers and our stable relationship with them also contribute to the relatively long credit term to them, and we believe that the credit risk inherent in our outstanding trade receivable balances due from them is low. Specifically, our Directors are of the view that the risk of not being able to recover the trade receivables aged over one year is relatively low based on our evaluation of the historical credit standing, ongoing monitoring and the credit records of these customers, and that sufficient provision has been made. We have adopted credit control measures to improve the trade receivables situation. Our business operation team prepares trade receivable details on a weekly basis according to the amount of revenue recognized and the amount of cash collection. These trade receivable details are allocated to assigned business managers to follow up, including performing balance reconciliation, summarization of cash collection details and trade receivable collection forecast. Meanwhile, we apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. See “— Financial Risk Disclosure — Credit Risk — Impairment of Financial Assets” for details.

We have also taken more active steps to mitigate risk exposure to customers with potential prolonged delay settlement of trade receivables aged over one year and in collecting the outstanding trade receivables, such as (i) allocating more human resources on trade receivable collection efforts; (ii) closely supervising trade receivable collection; (iii) enhancing future sales contract negotiation

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process, and (iv) developing relationships with customers of stronger credit profile. The achievements of cash collection of trade receivables have been one of the key performance indicators of our sales managers to encourage the recovery of trade receivables.

The Joint Sponsors have performed the following due diligence work in relation to the recoverability of our Group's trade receivables and the provisions made by our Group during the Track Record Period:

- discussed with our management to understand, amongst other things, how our Company assess the recoverability of trade receivables, the expected credit loss model adopted by our Company, and the basis on which the provisions were made during the Track Record Period;
- discussed with our independent internal control advisor to understand our Company's procedures in relation to expected credit loss model and trade receivables collection;
- obtained and reviewed our Company's policy on the expected credit loss model; and
- discussed with the reporting accountant to understand the audit procedures they have conducted in relation to trade receivables and provisions for the purpose of expressing an opinion on the historical financial information of our Group as a whole.

Based on the due diligence work conducted by the Joint Sponsors as stated above, and having considered the work performed by our management and the unqualified opinion on the historical financial information, as a whole, of our Group issued by the reporting accountant included in Appendix I to this prospectus, nothing has come to the attention of the Joint Sponsors for them to cast doubt on the views of our Directors on the recoverability of the trade receivables and the provisions made during the Track Record Period expressed above.

The following table sets out our net trade receivables from Smart City and total net trade receivables as of June 30, 2021 and the subsequent settlement:

| | Balance as of | | | | Subsequent settlement as of | Percentage of subsequent settlement as of |
|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------------------|---|
| | December 31, 2018 | December 31, 2019 | December 31, 2020 | June 30, 2021 | October 31, 2021 | October 31, 2021 |
| | RMB million | | | | | % |
| Smart City | 491.2 | 1,303.6 | 2,113.9 | 2,164.7 | 74.2 | 3.4 |
| Non-Smart City | 738.4 | 1,099.7 | 1,024.7 | 976.7 | 206.0 | 21.1 |
| Total | <u>1,229.6</u> | <u>2,403.3</u> | <u>3,138.6</u> | <u>3,141.4</u> | <u>280.2</u> | <u>8.9</u> |

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As of October 31, 2021, we had collected 21.1% of the trade receivables from non-Smart City as of June 30, 2021 and 3.4% from Smart City, which is generally consistent with our collection record during the Track Record Period. As mentioned above, we have enhanced our internal collection policies for the relatively long aged receivables, and actively collected from customers with delay settlement of trade receivables. These measures have proven to be effective as the majority of the trade receivables subsequently collected from Smart City customers as of October 31, 2021 were aged more than one year as of June 30, 2021. Based on the above, our Directors are of the view that we have maintained effective credit control measures to monitor and improve our credit risks.

Other Receivables

Our other receivables include primarily payments made on behalf of customers. When we deliver our software products, we sometimes purchase additional products and services on behalf of our customers and receive reimbursement of the payments. Our other receivables increased significantly from RMB114.5 million as of December 31, 2018 to RMB2,248.4 million as of December 31, 2019. Our other receivables decreased by 41.3% from RMB2,248.4 million as of December 31, 2019 to RMB1,318.7 million as of December 31, 2020, and further decreased by 33.3% to RMB880.2 million as of June 30, 2021. The fluctuations were primarily attributable to our increased procurement requests from customers for additional products and services in 2019 during which, we mainly focused on the expansion of our business. Starting from 2020, our other receivables decreased primarily due to fulfillment of payment obligations of such customers. At the same time, we made a strategic decision to limit such purchases on behalf of customers, as we put more emphasis on managing our working capital in a more efficient way. We implemented this strategy to focus on expanding our software offerings by standardizing and improving the adaptability of our software platforms.

Trade and Other Payables

Our trade and other payables primarily include (i) payments due for the purchase of hardware and services, (ii) accrued staff salaries and welfare, and (iii) payments due for the purchase of property, plant and equipment. Our trade and other payables increased significantly from RMB887.1 million as of December 31, 2018 to RMB3,103.3 million as of December 31, 2019, primarily due to (i) payables for the purchase of our office building in Shanghai; and (ii) the growth of our business. Our trade and other payables decreased by 44.4% from RMB3,103.3 million as of December 31, 2019 to RMB1,724.5 million as of December 31, 2020, primarily because we settled the payment for our office building in Shanghai. Our trade and other payables decreased by 16.6% from RMB1,724.5 million as of December 31, 2020 to RMB1,438.5 million as of June 30, 2021, primarily due to the settlement with our suppliers.

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The following table sets out an aging analysis of our trade payables as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|--------------------------|--------------------|--------------|--------------|----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Up to 6 months | 351.7 | 723.2 | 475.2 | 172.5 |
| 6 months to 1 year | 7.4 | 0.3 | 12.4 | 94.2 |
| 1 to 2 years | 0.3 | 8.4 | 46.5 | 54.0 |
| Total | 359.4 | 731.9 | 534.1 | 320.7 |

The following table sets out the number of our trade payables turnover days for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, |
|---|-------------------------|-------------|-------------|------------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Trade payables turnover days ⁽¹⁾ | 92 | 152 | 228 | 172 |

Note:

- (1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of sales for the same period and multiplied by 365 days for a full-year period or 180 days for a six-month period.

Our trade payables turnover days increased from 92 days in 2018 to 152 days in 2019, and further increased to 228 days in 2020, due to the longer credit term granted by our suppliers. Our trade payables turnover days decreased to 172 days in the six months ended June 30, 2021, primarily due to our settlement with suppliers in the six months ended June 30, 2021, which resulted in a decreased trade payables balance.

As of October 31, 2021, RMB80.5 million, or approximately 25.1% of our trade payables as of June 30, 2021 had been settled.

Contract Liabilities

Our customers typically make upfront payments for the licenses to use our software products. A contract liability is our obligation to provide products to a customer for which we have received consideration (or an amount of consideration is due) from the customer. Our contract liabilities increased significantly from RMB70.2 million as of December 31, 2018 to RMB152.9 million as of December 31, 2019 and further to RMB253.4 million as of December 31, 2020, which was in line with the expansion of our services with existing customers and the growth of our customer base. Our contract liabilities further decreased by 37.7% to RMB157.8 million as of June 30, 2021, because certain contract liabilities were recognized as revenue. See Note 2.26 of Appendix I to this prospectus.

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Inventories

Our inventories primarily consist of servers, AI software-embedded hardware products, components and semiconductors. Our inventories increased significantly from RMB117.3 million as of December 31, 2018 to RMB430.1 million as of December 31, 2019, and further increased by 66.4% to RMB715.5 million as of December 31, 2020. Our inventories decreased by 6.8% to RMB667.2 million as of June 30, 2021.

Inventory turnover days for a period equals the average of the opening and closing inventory balance divided by cost of sales for the same period and multiplied by 365 days for a full-year period or 180 days for a six-month period. Our inventory turnover days increased from 31 days in 2018 to 76 days in 2019 and further from 206 days in 2020 to 279 days in the six months ended June 30, 2021, which was generally in line with the growth of our business. In 2020, we increased purchase of inventories (i) in anticipation of supply chain disruptions induced by the COVID-19 pandemic; and (ii) for expected growth in purchases from Smart City customers under the growing trend of urbanization, urban digitization, and new national policy of “New Infrastructure.”

As of October 31, 2021, RMB83.6 million, or approximately 12.5% of our net inventories as of June 30, 2021 had been subsequently consumed or sold.

Property, Plant and Equipment

Our property, plant and equipment mainly consist of our (i) supercomputers and related equipment and (ii) buildings and land use rights. Our property, plant and equipment increased significantly from RMB585.2 million as of December 31, 2018 to RMB1,893.9 million as of December 31, 2019, mainly due to the purchase of our office building in Shanghai. Our property, plant and equipment remained relatively stable as of December 31, 2019 and 2020, at RMB1,893.9 million and RMB1,906.5 million, respectively. Our property, plant and equipment increased by 16.8% to RMB2,226.1 million as of June 30, 2021, mainly due to our continuous investment in AIDC.

Intangible Assets

Our intangible assets mainly consist of our software and acquired patents. Our intangible assets increased significantly from RMB39.6 million as of December 31, 2018 to RMB139.7 million as of December 31, 2019, which was in line with the growth of our business and our technology innovation. Our intangible assets decreased to RMB108.0 million as of December 31, 2020, and further to RMB93.5 million as of June 30, 2021, primarily due to the decrease in the net book amount of our acquired patents as a result of amortization.

Financial Assets at Fair Value Through Profit or Loss

Our financial assets at fair value through profit or loss recorded as non-current assets mainly represented our debt and equity investments in certain entities and funds, and our financial assets at fair value through profit or loss recorded as current assets represented purchased structured deposits.

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The breakdown of investments is listed below:

| | As of December 31, | | | As of June 30, |
|---|--------------------|----------------|----------------|----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Non-current assets | | | | |
| Debt and equity investment ⁽¹⁾ | 1,851.4 | 2,901.4 | 3,736.5 | 4,498.5 |
| Derivative — Put option liability | — | — | 2.1 | 2.1 |
| | 1,851.4 | 2,901.4 | 3,738.6 | 4,500.6 |
| Current assets | | | | |
| Structured deposits | — | — | — | 2,186.4 |
| | <u>1,851.4</u> | <u>2,901.4</u> | <u>3,738.6</u> | <u>6,687.0</u> |

Note:

- (1) Debt and equity investment mainly represent (i) investments in various industry companies in the form of convertible redeemable preferred shares, ordinary shares with preferential rights and convertible loans, and investments in certain investment funds as a limited partner, and (ii) investments in listed and unlisted securities. See Note 26 of Appendix I to this prospectus.

Our financial assets at fair value through profit or loss of non-current assets increased by 56.7% from RMB1,851.4 million as of December 31, 2018 to RMB2,901.4 million as of December 31, 2019, and further increased from RMB3,738.6 million as of December 31, 2020 to RMB4,500.6 million as of June 30, 2021. The changes were primarily due to the overall valuation change of the investee companies and new investments.

Our financial assets at fair value through profit or loss of current assets amounting to RMB2,186.4 million were purchased structured deposits, principally in low risk from banks. Our purchased structured deposits were with a maturity of less than one year. In general, the return of the structured deposits is not protected or guaranteed by the issuing bank. In 2018, 2019, 2020 and the six months ended June 30, 2020 and 2021, we purchased structured deposits of RMB961.0 million, RMB3,676.0 million, RMB6,933.0 million, RMB754.0 million and RMB10,924.0 million, respectively, and obtained proceeds from disposal of structured deposits of RMB1,126.7 million, RMB3,697.5 million, RMB6,966.1 million, RMB335.6 million and RMB8,779.8 million, respectively.

We are exposed to price risk in relation to non-current assets and credit risk in relation to current assets 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. Our dedicated managers are in charge of purchasing, monitoring and adjusting our investments, evaluating the risk associated and our liquidity, preparing analysis and reporting to the management team periodically. They put forward plans that include the portfolio to be purchased and the risk associated in respect of the return, the term of the products and the analysis of our overall liquidity.

See Note 26 of the Accountant's Report in Appendix I to this document for detail of the movements of financial assets at fair value through profit or loss.

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Preferred Share Liabilities

Our preferred share liabilities increased by 46.5% from RMB18,506.2 million as of December 31, 2018 to RMB27,105.7 million as of December 31, 2019 and further to RMB50,185.6 million as of December 31, 2020 and further to RMB52,037.0 million as of June 30, 2021. The increases in our preferred share liabilities were primarily due to (i) the issuances of preferred shares under our financing arrangements and (ii) an increase in our valuation which resulted in an increase in the fair value of the preferred shares. See “— Indebtedness — Preferred Share Liabilities and Other Financial Liabilities — Preferred Share Liabilities” for details.

KEY FINANCIAL RATIOS

The following table sets out our key financial ratios for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, | |
|--|-------------------------|--------|--------|---------------------------|--------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Revenue growth (%) | N/A | 63.3 | 13.9 | N/A | 91.8 |
| Gross profit growth (%) | N/A | 64.2 | 41.5 | N/A | 94.1 |
| Gross margin ⁽¹⁾ (%) | 56.5 | 56.8 | 70.6 | 72.1 | 73.0 |
| Adjusted net margin (non-IFRS measure) ⁽²⁾ (%) | (8.1) | (38.2) | (20.5) | (133.6) | (35.0) |
| Adjusted EBITDA margin (non-IFRS measure) ⁽³⁾ (%) | (4.8) | (36.4) | (10.5) | (122.2) | (26.1) |

Notes:

- (1) Gross margin equals gross profit divided by revenue for the period and multiplied by 100%.
- (2) Adjusted net margin (non-IFRS measure) equals adjusted net profit/(loss) (non-IFRS measure) divided by revenue for the period and multiplied by 100%.
- (3) Adjusted EBITDA margin (non-IFRS measure) equals adjusted EBITDA (non-IFRS measure) divided by revenue for the period and multiplied by 100%.

See “— Description of Major Components of Our Results of Operations.”

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from equity and debt financing and cash generated from operations.

As of December 31, 2018, 2019, and 2020 and June 30, 2021, we had cash and cash equivalents of RMB7,227.1 million, RMB6,672.9 million, RMB11,427.9 million and RMB8,925.8 million, respectively. As of June 30, 2021, we also had term deposit of RMB7,938.7 million, and current financial assets at fair value through profit or loss of RMB2,186.4 million. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of operating cashflow, equity and debt financing and net proceeds from the Global Offering.

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Cash Flow

The following table sets out a reconciliation from the operating cash flows before movements in working capital to net cash used in operating activities, and our cash flows for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|-------------------------|------------------|------------------|---------------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| | | | | (Unaudited) | |
| Reconciliation of operating cash flows before movements in working capital to net cash used in operating activities | | | | | |
| Operating cash flows before movements in working capital | (81.5) | (692.1) | 73.9 | (764.2) | (386.7) |
| Add: | | | | | |
| Change in working capital | (666.1) | (2,176.1) | (1,289.6) | (378.1) | (411.5) |
| Income tax paid | (2.1) | (1.2) | (13.1) | (12.4) | (32.7) |
| Net cash used in operating activities | (749.7) | (2,869.4) | (1,228.8) | (1,154.7) | (830.9) |
| Net cash used in investing activities | (3,108.0) | (1,628.0) | (7,070.5) | (1,146.1) | (5,111.5) |
| Net cash generated from financing activities | 8,798.9 | 3,772.6 | 13,185.7 | 679.8 | 3,536.3 |
| Net increase/(decrease) in cash and cash equivalents | 4,941.2 | (724.8) | 4,886.4 | (1,621.0) | (2,406.1) |
| Cash and cash equivalents at the end of the year/period | 7,227.1 | 6,672.9 | 11,427.9 | 5,161.1 | 8,925.8 |

We had net cash flows used in operating activities of RMB749.7 million, RMB2,869.4 million, RMB1,228.8 million and RMB830.9 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, primarily due to our significant investments in our research and development efforts to enhance our products and services, and changes in the working capital caused by increasing trade and other receivables as our business grew rapidly during the Track Record Period. We expect to record net operating cash outflows in the year ending December 31, 2021 as we continuously expand our businesses and invest in research and development.

In the future, we expect to improve our net operating cash outflows position by taking advantage of (i) our continuous revenue growth fueled by our growing customer base, expanding product and service offerings and stronger global footprints; (ii) our improved operating leverage as we expect our revenue growth to exceed the increase in expenses gradually; and (iii) our improved working capital efficiency.

We expect to maintain sufficient working capital to meet our present requirements and in the near future. As of June 30, 2021, our cash and cash equivalents amounted to RMB8,925.8 million, substantially exceeding our net cash used in operating activities of RMB830.9 million in the six months ended June 30, 2021. Furthermore, we expect to turn our net liabilities position into net assets upon Listing, as the convertible redeemable preferred shares will be re-designated from financial liabilities to equity. We expect to improve our operating cash outflow primarily by refining our management of working capital, as well as by expanding our revenue. We continue to leverage our leading industry position to negotiate more attractive contractual terms with our customers, and have implemented strengthened credit term review and approval procedures. For example, we conduct individual assessment of customer's credit worthiness and examine the customer's business

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license and financial record. We grant the credit term to our customers based on various factors, including their individual financial conditions and our past collaborations with them, and may escalate the approval requirements where the credit term negotiated is longer than expected. We also implement credit release check before delivering our products and services according to our internal review procedures. Meanwhile, we negotiate with our suppliers and have recently been granted more favorable payment terms with several suppliers. In the future, we plan to develop relationships with more customers of stronger credit profile. We also expect to collect our trade receivables in a more efficient manner and have implemented relevant measures, such as using the cash collection performance of trade receivables as one of the key performance indicators for our sales managers. In addition, we expect to increase revenue contribution from emerging revenue streams, such as Smart Life and Smart Auto, leading to a shift of our revenue mix as we develop, upgrade and commercialize our new products and services. See “Summary — Recent Development” for details. With our standardized software platform, we have achieved economies of scale, which has resulted in relatively high and increasing gross margins. We expect to improve our net margin over time as we drive operational efficiencies, including R&D efficiencies, creating significant economies of scale at the operating expense level. As a result, higher net margins will contribute to enhanced operating cash flow.

Net Cash Used in Operating Activities

Net cash used in operating activities primarily comprises our loss before income tax for the period adjusted by: (i) non-cash and non-operating items; and (ii) changes in working capital.

In the six months ended June 30, 2021, our net cash used in operating activities was RMB830.9 million, which was primarily attributable to our loss before income tax of RMB3,792.9 million, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value losses on financial liabilities at fair value through profit or loss of RMB1,713.6 million and share-based compensation expenses of RMB1,421.0 million; and (ii) changes in working capital, primarily comprised of a decrease in trade and other payables of RMB183.5 million.

In 2020, the net cash used in operating activities was RMB1,228.8 million, which was primarily attributable to our loss before income tax of RMB12,319.0 million, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value losses on financial liabilities at fair value through profit or loss of RMB10,563.6 million and share-based compensation expenses of RMB887.0 million, partially offset by finance income of RMB174.9 million; and (ii) changes in working capital, which primarily comprised an increase in trade and other receivables of RMB331.0 million, partially offset by a decrease in trade and other payables of RMB980.9 million.

In 2019, the net cash used in operating activities was RMB2,869.4 million, which was primarily attributable to our loss before income tax of RMB5,172.9 million, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value losses on financial liabilities at fair value through profit or loss of RMB3,681.5 million and provision for impairment of financial assets of RMB278.1 million, partially offset by finance income of RMB268.1 million; and (ii) changes in working capital, which primarily comprised an increase in trade and other receivables of RMB3,498.5 million and an increase in inventories of RMB337.9 million, partially offset by an increase in trade and other payables of RMB1,532.3 million.

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In 2018, the net cash used in operating activities was RMB749.7 million, which was primarily attributable to our loss before income tax of RMB3,456.2 million, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value losses on financial liabilities at fair value through profit or loss of RMB3,182.0 million, partially offset by finance income of RMB105.3 million; and (ii) changes in working capital, which primarily comprised an increase in trade and other receivables of RMB510.3 million, partially offset by an increase in contract liabilities of RMB70.2 million.

Net Cash Used in Investing Activities

In six months ended June 30, 2021, the net cash used in investing activities was RMB5,111.5 million, which was primarily attributable to the acquisition of investments in financial assets at fair value through profit and loss of RMB11,691.0 million and net increase in investments in term deposits of RMB2,002.5 million, partially offset by disposal of investments in financial assets at fair value through profit and loss of RMB8,858.3 million.

In 2020, net cash used in investing activities was RMB7,070.5 million, which was primarily attributable to the acquisition of investments in financial assets at fair value through profit and loss of RMB7,890.6 million and net increase in investments in term deposits of RMB5,012.6 million, partially offset by disposal of investments in financial assets at fair value through profit and loss of RMB7,031.9 million.

In 2019, net cash used in investing activities was RMB1,628.0 million, which was primarily attributable to the acquisition of investments in financial assets at fair value through profit and loss of RMB4,913.7 million, partially offset by disposal of investments in financial assets at fair value through profit and loss of RMB3,773.5 million.

In 2018, net cash used in investing activities was RMB3,108.0 million, which was primarily attributable to the acquisition of investments in financial assets at fair value through profit and loss of RMB2,572.5 million and net increase in investments in term deposits of RMB1,241.8 million, partially offset by disposal of investments in financial assets at fair value through profit and loss of RMB1,137.0 million.

Net Cash Generated from Financing Activities

In the six months ended June 30, 2021, the cash generated from financing activities was RMB3,536.3 million, which was primarily attributable to proceeds from issuance of preferred shares of RMB9,202.4 million. It was partially offset by repayments of amount due to preferred shareholders of RMB5,206.0 million, representing the deposits previously received from certain preferred shareholders in accordance with relevant share purchase agreement.

In 2020, net cash generated from financing activities was RMB13,185.7 million, which was primarily attributable to proceeds from issuance of preferred shares of RMB6,847.0 million, proceeds from amount due to preferred shareholders of RMB5,179.4 million and deposits for bank borrowings and issuance of notes payables of RMB3,791.3 million, partially offset by repayment of borrowings of RMB3,440.6 million.

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In 2019, net cash generated from financing activities was RMB3,772.6 million, which was primarily attributable to proceeds from issuance of preferred share of RMB5,535.1 million and proceeds from borrowings of RMB3,226.6 million, partially offset by deposits for bank borrowings and issuance of notes payables of RMB2,150.3 million and repayment of borrowings of RMB1,452.6 million.

In 2018, net cash generated from financing activities was RMB8,798.9 million, which was primarily attributable to proceeds from issuance of preferred shares of RMB10,991.3 million and proceeds from borrowings of RMB1,603.4 million, partially offset by deposits for bank borrowings and the issuance of notes payables of RMB1,984.5 million, redemption of preferred shares of RMB733.1 million and redemption of ordinary shares of RMB551.1 million.

INDEBTEDNESS

As of October 31, 2021, being the indebtedness date for the purpose of the indebtedness statement, our indebtedness included: (i) borrowing of RMB114.8 million; (ii) lease liabilities of RMB317.3 million; (iii) preferred share liabilities of RMB52,258.6 million and other financial liabilities with nil amount; and (iv) other non-current liability of RMB255.6 million. As of the same date, we had unutilized banking facilities of RMB9,301.8 million.

Borrowings

We had bank borrowings of RMB1,557.2 million as of December 31, 2018, RMB3,356.5 million as of December 31, 2019, RMB1,016.6 million as of December 31, 2020, RMB621.9 million as of June 30, 2021, and RMB114.8 million as of October 31, 2021, being the indebtedness date for the purpose of the indebtedness statement.

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|--------------------|----------------|----------------|-------------------|----------------------------|
| | 2018 | 2019 | 2020 | 2021 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million (Unaudited) |
| Non-Current | | | | | |
| Bank borrowing — secured | — | — | 441.0 | 432.0 | 114.4 |
| Less: Current portion of non-current borrowings | — | — | (18.0) | (22.5) | — |
| | <u>—</u> | <u>—</u> | <u>423.0</u> | <u>409.5</u> | <u>114.4</u> |
| Current | | | | | |
| Short-term borrowing — secured | 1,513.0 | 3,220.8 | — | — | — |
| Short-term borrowing — unsecured | 39.6 | 105.8 | 574.0 | 188.9 | — |
| Current portion of non-current borrowings | — | — | 18.0 | 22.5 | — |
| Interest payable | 4.6 | 29.9 | 1.6 | 1.0 | 0.4 |
| | <u>1,557.2</u> | <u>3,356.5</u> | <u>593.6</u> | <u>212.4</u> | <u>0.4</u> |
| Total | <u>1,557.2</u> | <u>3,356.5</u> | <u>1,016.6</u> | <u>621.9</u> | <u>114.8</u> |

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Our bank borrowings agreements contain standard terms, conditions and covenants that are customary for commercial bank loans. Our Directors confirm that, there was no material covenant on any of our outstanding debt as of the Latest Practicable Date, and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we did not experience any unusual difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Lease Liabilities

IFRS 16 introduced a single lessee accounting model, whereby assets and liabilities are recognized for all leases on the balance sheet, subject to certain exceptions. Our lease liabilities include the net present value of our lease payments as specified in Note 17 of Appendix I to this prospectus. The following table sets out our lease liabilities in absolute amounts as of the dates indicated:

| | As of December 31, | | | As of June 30, | As of October 31, |
|--------------------------|---------------------|---------------------|---------------------|---------------------|----------------------------|
| | 2018 | 2019 | 2020 | 2021 | 2021 |
| | RMB million | RMB million | RMB million | RMB million | RMB million (Unaudited) |
| Lease liabilities | | | | | |
| Current | 131.1 | 123.0 | 109.5 | 109.6 | 130.4 |
| Non-current | 334.6 | 295.7 | 184.1 | 134.4 | 186.9 |
| Total | <u>465.7</u> | <u>418.7</u> | <u>293.6</u> | <u>244.0</u> | <u>317.3</u> |

Our lease liabilities decreased by 10.1% from RMB465.7 million as of December 31, 2018 to RMB418.7 million as of December 31, 2019, and further decreased to RMB293.6 million as of December 31, 2020, and RMB244.0 million as of June 30, 2021, then increased to RMB317.3 million as of October 31, 2021. The fluctuations in our lease liabilities were primarily due to our rental payment.

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Preferred Share Liabilities and Other Financial Liabilities

The following table sets our preferred share liabilities and other financial liabilities in absolute amounts as of the dates indicated:

| | As of December 31, | | | As of | As of |
|--|------------------------|------------------------|------------------------|----------------------------|------------------------|
| | 2018 | 2019 | 2020 | June 30, | October 31, |
| | RMB million | RMB million | RMB million | 2021 | 2021 |
| | | | RMB million | RMB million (Unaudited) | |
| <u>Preferred share liabilities</u> | | | | | |
| Current | — | — | 1,897.6 | — | — |
| Non-current | 18,506.2 | 27,105.7 | 48,288.0 | 52,037.0 | 52,258.6 |
| Total preferred share liabilities | <u>18,506.2</u> | <u>27,105.7</u> | <u>50,185.6</u> | <u>52,037.0</u> | <u>52,258.6</u> |
| <u>Other financial liabilities</u> | | | | | |
| Current | | | | | |
| Warrant liability | 5.6 | 7.4 | 14.0 | — | — |
| Financial liability at fair value through profit or loss | — | 0.3 | — | — | — |
| | <u>5.6</u> | <u>7.7</u> | <u>14.0</u> | <u>—</u> | <u>—</u> |
| Non-current | | | | | |
| Convertible liabilities | <u>254.6</u> | — | — | — | — |
| Total other financial liabilities | <u>260.2</u> | <u>7.7</u> | <u>14.0</u> | <u>—</u> | <u>—</u> |

Preferred Share Liabilities

We had preferred shares that are redeemable upon occurrence of certain future events. Our preferred share liabilities can also be converted into ordinary shares at the option of the preferred shareholders, or automatically upon occurrence of an initial public offering, or when agreed by majority of the preferred shareholders.

Warrant Liability

As of December 31, 2018, 2019 and 2020, June 30, 2021 and October 31, 2021, the warrant liability had a fair value of RMB5.6 million, RMB7.4 million, RMB14.0 million, nil, and nil, respectively. The warrant liability has been repurchased in May 2021.

Financial Liability at Fair Value Through Profit or Loss

As of December 31, 2018, 2019 and 2020, June 30, 2021 and October 31, 2021, we had financial liabilities at fair value through profit or loss of nil, RMB0.3 million, nil, nil and nil, respectively.

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Convertible Liabilities

Certain holders of preferred shares enter into investment agreements to subscribe for the preferred shares before they completed the outbound procedures, which are recognized as convertible liabilities in the consolidated balance sheets. As of December 31, 2018, 2019 and 2020, June 30, 2021 and October 31, 2021, the convertible liabilities were RMB254.6 million, nil, nil, nil and nil, respectively.

Other Non-current Liabilities

As of December 31, 2018, 2019 and 2020, June 30, 2021 and October 31, 2021, other non-current liabilities were nil, RMB280.6 million, RMB261.0 million, RMB258.4 million and RMB255.6 million, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants under our loan agreements. Except as disclosed above, during the Track Record Period, and as of October 31, 2021, being the indebtedness date for the purpose of indebtedness statement, we did not have any other material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other material contingent liabilities.

CONTINGENT LIABILITIES

As of December 31, 2018, 2019 and 2020, June 30, 2021 and October 31, 2021, we did not have any material contingent liabilities.

CAPITAL COMMITMENTS

The following table sets out our capital commitments as of the date indicated:

| | As of December 31, | | | As of June 30, |
|---|--------------------|-------------|--------------|----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB million | RMB million | RMB million | RMB million |
| Property, plant and equipment | 18.5 | 30.2 | 520.4 | 782.2 |
| Intangible assets | 4.1 | 4.5 | — | 6.7 |
| Capital contribution to financial assets at fair value through profit or loss | 30.0 | — | — | 0.6 |
| Total | 52.6 | 34.7 | 520.4 | 789.5 |

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CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended | |
|---|-------------------------|--------------|--------------|--------------|----------------|--------------|------------------|--------------|
| | 2018 | | 2019 | | 2020 | | June 30, | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| Purchase of property, plant and equipment | 477.9 | 98.0 | 777.0 | 86.4 | 1,209.8 | 92.7 | 378.2 | 97.4 |
| Purchase of intangible assets | 9.6 | 2.0 | 121.8 | 13.6 | 28.1 | 2.1 | 9.9 | 2.6 |
| Purchase of land use right | — | — | — | — | 67.7 | 5.2 | — | — |
| Total | 487.5 | 100.0 | 898.8 | 100.0 | 1,305.6 | 100.0 | 388.1 | 100.0 |

Our capital expenditures in 2018, 2019, 2020 and the six months ended June 30, 2021 were RMB487.5 million, RMB898.8 million, RMB1,305.6 million and RMB388.1 million, respectively, primarily attributable to purchase of property, plant and equipment. We funded our capital expenditure requirements during the Track Record Period mainly from equity and debt financing. We intend to fund our future capital expenditures and long-term investments with a combination of operating cashflow, equity and debt financing and net proceeds received from the Global Offering. See “Future Plans and Use of Proceeds.” We may reallocate the fund to be utilized on capital expenditure based on our ongoing business needs.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-balance sheet arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into a number of related party transactions, see Note 40 of Appendix I to this prospectus.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

Financial Risk Factors

Our activities expose us 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. Our

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overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Market Risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective group entities' functional currency. Our Company's functional currency is USD. Our 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 currency, respectively.

We are primarily exposed to changes in RMB/USD exchange rates. As of December 31, 2018, December 31, 2019, December 31, 2020, and June 30, 2021, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, our net loss for the year/period would have been RMB909.9 million, RMB997.9 million, RMB806.2 million, and RMB1,304.2 million higher/lower, respectively, as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables.

In 2020, we entered into certain foreign exchange forward contract to hedge the foreign exchange risk between USD and RMB. These contracts were not qualified for hedge accounting and the loss were recorded in "other (losses)/gains — net." See Note 9 of Appendix I to this prospectus.

Cash flow and fair value interest rate risk

Except for cash and cash equivalents, restricted cash and term deposits and long-term receivables, we have no significant interest-bearing assets. Our income and operating cash flows are substantially independent of changes in market interest rates.

Our interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 36 in Appendix I to this prospectus. We did not use any interest rate swap contracts or other financial instruments to hedge against interest rate risk during the Track Record Period. Our management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arises.

As of December 31, 2018, December 31, 2019, December 31, 2020, and June 30, 2021, if our interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net loss for the year/period would have been RMB0.9 million, RMB1.8 million, RMB0.2 million and RMB0.2 million higher/lower, respectively, as a result of higher/lower interest expenses on floating rate borrowings.

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Our long-term receivables expose us to fair value interest risk. See Note 24 for the fair value of long-term receivables.

Our preferred shares issued to investors expose us to fair value interest rate risk before conversion into ordinary shares. See Note 30 in Appendix I to this prospectus for the fair value of these investments.

Price risk

We are exposed to equity price risk mainly arising from investments held by us that are classified as FVPL, see Note 26 in Appendix I to this prospectus. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing our liquidity level simultaneously. Each investment is managed by our senior management on a case by case basis.

Sensitivity analysis is performed by our management to assess the exposure of our financial results to equity price risk of financial assets at FVPL at the end of each reporting period. If prices of the respective instruments held by us had been 5% higher/lower as at December 31, 2018, 2019, 2020 and June 30, 2021, loss for the year/period would have been RMB13.7 million, RMB12.2 million, RMB49.6 million and RMB56.0 million lower/higher as a result of gains/losses on financial assets at FVPL.

Credit Risk

Credit risk arises from cash and cash equivalents, restricted cash, term deposits, structured deposits, as well as trade receivables and contract assets, other receivables, amount due from related party and preferred shareholders. The carrying amount of each class of the above financial assets represents our 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, structured deposits and interests receivables are mainly placed with reputable commercial banks which are all high-credit-quality financial institutions all over the world.

To manage risk arising from trade receivables, we have 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 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 sound collection history of receivables due from them, to measure the expected credit losses, trade receivables have been

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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 profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

For other financial assets carried at amortized cost (excluding prepaid listing expenses, input VAT to be deducted and prepayments), our management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences.

We are 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.

Impairment of Financial Assets

We have four types of financial assets that are subject to the expected credit loss model: (i) cash and cash equivalents, restricted cash, term deposits and structured deposits; (ii) trade receivables and contract assets (including notes receivables and long-term receivables); (iii) amount due from preferred shareholders; and (iv) other receivables.

To manage risk arising from cash and cash equivalents, restricted cash, term deposits and structured deposits, we only transact with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside 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.

To manage risk arising from trade receivables and contract assets, our business operation team prepare trade receivable details on a weekly basis according to the amount of revenue recognized and the amount of cash collection. These trade receivable details are allocated to assigned business managers to follow up, including the performing balance reconciliation, summarization of cash collection details and the trade receivable collection forecast. Meanwhile, we apply the IFRS 9 simplified approach to measuring 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 long-term receivables and note receivables) have been grouped based on shared credit risk characteristics and the number of days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2018, December 31, 2019, December 31, 2020, and June 30, 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We have identified the Gross Domestic Product (“GDP”) of the PRC to be the

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most relevant factor, and accordingly adjust the historical loss rates based on expected changes in these factors. See Note 3.1(b) in Appendix I to this prospectus. We have cautiously reflected the uncollectible risk of such trade receivable and sufficient provision for impairment has been reflected. For details of our impairment provision policy, see Note 4.1 of Appendix I to this prospectus.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents to meet our liquidity requirements. For details about our contractual undiscounted cash flows, see Note 3.1(c) in Appendix I to this prospectus.

DIVIDEND

We currently do not have any predetermined dividend payout ratio. No dividends had been declared or paid by our Company during the Track Record Period.

Subject to the Companies Act and the Articles of Association, the Directors may from time to time declare dividend and authorize payment of the same out of the lawfully available funds. The Company may also by ordinary resolutions declare dividends, but no dividends shall exceed the amount recommended by the Directors. The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. See "Summary of the Constitution of Our Company — Dividends and Distributions" for details.

As confirmed by our PRC Legal Advisor, according to relevant PRC laws, any future net profit that our PRC subsidiaries make will have to be first applied to make up for our historically accumulated losses, after which we will be obliged to allocate 10% of our net profit to our statutory common reserve fund until such fund has reached more than 50% of our registered capital. We will therefore only be able to declare dividends after (i) all our historically accumulated losses have been made up for; and (ii) we have allocated sufficient net profit to our statutory common reserve fund as described above.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, the available banking facilities and the estimated net proceeds from the Global Offering, our directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

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DISTRIBUTABLE RESERVES

As of June 30, 2021, we did not have any distributable reserves.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We expect to incur listing expenses of approximately HK\$224.9 million representing approximately 3.8% of the gross proceeds from the Global Offering (based on the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). The listing expenses we incurred in the Track Record Period and expect to incur would consist of approximately HK\$116.7 million underwriting fees and approximately HK\$108.2 million non-underwriting fees (including fees and expenses of legal advisors and the reporting accountant of approximately HK\$59.2 million and other fees and expenses of approximately HK\$49.0 million). Among the total listing expenses which we expect to incur, approximately HK\$125.6 million will be directly attributable to the issue of our Shares and capitalized, and the remaining HK\$99.3 million will be expensed upon Listing. Our Directors do not expect such expenses to materially impact our results of operations in 2021.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on our consolidated net tangible assets attributable to the owners of our Company as of June 30, 2021 as if the Global Offering had taken place on June 30, 2021. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as of June 30, 2021 or at any future date.

| | Audited consolidated net tangible liabilities of the Group attributable to the owners of the Company as of June 30, 2021 | Estimated net proceeds from the Global Offering | Estimated impact related to the conversion of the Preferred Shares from liabilities to equity upon the completion of Global Offering | Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company | Unaudited pro forma adjusted consolidated net tangible assets per share | |
|-------------------------------------|---|---|---|--|---|-------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB</i> | <i>HK\$</i> |
| Based on an Offer Price of HK\$3.85 | | | | | | |
| per Offer Share | (23,179,863) | 4,571,560 | 52,036,956 | 33,428,653 | 1.06 | 1.29 |
| Based on an Offer Price of HK\$3.99 | | | | | | |
| per Offer Share | (23,179,863) | 4,739,692 | 52,036,956 | 33,596,785 | 1.06 | 1.30 |

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For more details of unaudited pro forma adjusted net tangible assets, see Appendix II to this prospectus.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2021, being the end date of the periods reported in Appendix I to this prospectus, and there is no event since June 30, 2021 that would materially affect the information as set out in the Accountant's Report in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.