2021

ANNUAL REPORT

商汤
sensetime

SenseTime Group Inc.

商汤集团股份有限公司

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

Stock Code: 0020

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. XU Li (徐立) *(Executive Chairman of the Board)*
Prof. TANG Xiao'ou (湯曉鷗)
Dr. WANG Xiaogang (王曉剛)
Mr. XU Bing (徐冰)

Non-executive Director

Ms. FAN Yuanyuan (范瑗瑗)

Independent non-executive Directors

Prof. XUE Lan (薛瀾)
Mr. LYN Frank Yee Chon (林怡仲)
Mr. LI Wei (厲偉)

AUDIT COMMITTEE

Mr. LYN Frank Yee Chon (林怡仲) *(Chairperson)*
Ms. FAN Yuanyuan (范瑗瑗)
Mr. LI Wei (厲偉)

REMUNERATION COMMITTEE

Mr. LI Wei (厲偉) *(Chairperson)*
Mr. LYN Frank Yee Chon (林怡仲)
Dr. XU Li (徐立)

NOMINATION COMMITTEE

Mr. LI Wei (厲偉) *(Chairperson)*
Dr. XU Li (徐立)
Prof. XUE Lan (薛瀾)

CORPORATE GOVERNANCE COMMITTEE

Prof. XUE Lan (薛瀾) *(Chairperson)*
Mr. LI Wei (厲偉)
Mr. LYN Frank Yee Chon (林怡仲)

JOINT COMPANY SECRETARIES

Ms. LIN Jiemin (林潔敏)
Ms. WONG Wai Yee Ella (黃慧兒) *(FCG, HKFCG)*

AUTHORIZED REPRESENTATIVES

Mr. XU Bing (徐冰)
Ms. LIN Jiemin (林潔敏)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
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COMPLIANCE ADVISOR

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STOCK CODE

0020

COMPANY'S WEBSITE

www.sensetime.com

Four-Year Financial Summary

	For the year ended December 31,			
	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Continuing operations				
Revenue	1,853,422	3,026,603	3,446,165	**4,700,263**
Gross profit	1,046,816	1,719,164	2,432,084	**3,277,638**
Loss before income tax	(3,456,245)	(5,172,861)	(12,319,017)	**(17,141,544)**
Income tax credits/(expenses)	23,496	205,169	160,670	**(35,506)**
Loss for the year from continuing operations	(3,432,749)	(4,967,692)	(12,158,347)	**(17,177,050)**
Losses attributable to:				
Equity holders of the Company	(3,427,778)	(4,962,548)	(12,158,193)	**(17,140,086)**
Non-controlling interests	(4,971)	(5,144)	(154)	**(36,964)**

	As at December 31,			
	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Total assets	16,948,113	23,948,047	38,478,637	**36,944,319**
Total liabilities	22,312,619	34,602,346	59,411,177	**4,957,235**
Total (deficits)/equity	(5,364,506)	(10,654,299)	(20,932,540)	**31,987,084**
Non-controlling interests	3,630	135,847	135,693	**94,573**
(Deficits)/Equity attributable to equity holders of the Company	(5,368,136)	(10,790,146)	(21,068,233)	**31,892,511**

FINANCIAL HIGHLIGHTS

Our revenue increased to RMB4,700.3 million in 2021 from RMB3,446.2 million in 2020. Our gross profit increased to RMB3,277.6 million in 2021 from RMB2,432.1 million in 2020. Our loss for the year increased to RMB17,177.1 million in 2021 from RMB12,158.3 million in 2020. Our negative adjusted EBITDA increased to RMB879.0 million in 2021 from RMB531.8 million in 2020, whereas our adjusted net loss increased to RMB1,418.4 million in 2021 from RMB878.4 million in 2020.

Chairman's Statement

Dear Shareholders,

SenseTime has continuously built our core capabilities and general infrastructure required for the development of cutting-edge artificial intelligence (AI) technology since its inception in 2014. We have been promoting the implementation of AI on a large scale in a wide range of industries, facilitating the evolution and development of these industries. I am pleased to present you with our first annual report since listing, and share with you the development of SenseTime in the past year and our outlook for the future.

During the past year, in spite of challenging external conditions, we completed the listing on Hong Kong Stock Exchange. Meanwhile, fueled by China's national mandate to accelerate AI infrastructure and our technology breakthroughs in making AI applications more accessible to all, we achieved satisfying results; our total revenue reached RMB4.70 billion, an increase of 36.4% year-on-year from RMB3.45 billion in 2020, with our full year gross profit margin standing at 69.7%. To better serve our customers and further extend our technology leadership, R&D investment is core to our strategy. We have made a cumulative investment of over RMB8 billion in R&D over the past four years, and in 2021, excluding share-based compensation expenses, our R&D investment was RMB3.06 billion, accounting for 65.1% of revenue.

Our effort to upgrade our AI infrastructure resulted in world's largest computer vision mode[1], with the most parameters, which in turn drives the mass production of commercial AI models at competitive costs. We have also successfully translated our cutting-edge research into high value, patented applications. As of the end of 2021, we had 11,494 global patent assets, a 96% increase compared to that of the end of 2020, among which, 78% were invention patents. Our operating expenses indicators were continuously optimized, excluding share-based compensation expenses and listing expenses, our administrative expenses as a percentage of revenue decreased from 29.6% in 2020 to 25.1% in 2021, while selling expenses as a percentage of revenue decreased from 14.6% in 2020 to 13.5% in 2021. We have maintained steady financial performance overall, with a total balance of cash at banks and in hand RMB21.52 billion as at the end of 2021. Adjusted net loss for 2021 was RMB1.42 billion.

2021 marked the first year of the 14th Five-Year Plan. Traditional industries have embraced digital transformation with increased vigor for AI technology. With the favorable policy guidance and steady inflow of capital investment, the China AI industry has been blooming. In particular, under The Digital Economy Development Plan in the 14th Five-Year Plan, it proposes that by 2025, the digital economy shall enter a phase of comprehensive expansion and application, digital economy would further contribute to 10% of total GDP. According to Frost & Sullivan, China's AI software market will reach RMB167.1 billion in 2025. As a leading AI software enterprise in China with proprietary technology breakthroughs, our efforts have been widely recognized by thousands of private enterprises and government customers alike. According to the "China Artificial Intelligence Market Report for the First Half of 2021" published by IDC, SenseTime once again ranked #1 in market share of computer vision application in China. According to the "2021 China Computer Vision Market Report" issued by Frost & Sullivan, SenseTime ranked #1 in terms of the computer vision leaders cohort, and took lead in both "growth index" and "innovation index".

In 2021, China has entered a new economic growth phase fueled by data as a key input as means of production. SenseTime has foreseen this trend and proactively planned ahead, thus resulting in SenseCore, our universal AI infrastructure that drives the industrialization of AI model innovation and production. SenseCore is the brainchild of our 4,274 R&D team, which accounts for 70% of our employee. As a new type of smart infrastructure integrating computing power, general algorithm and development platforms, SenseCore provides training for state-of-the-art AI base models as well as scenario specific models

[1] According to the Frost & Sullivan report, the main contents of the report are included in the Prospectus.

en mass. The significant reduction of model production costs lead to a much broader base application of AI, empowering all industries. SenseCore symbolizes the forward-looking judgment of the technology route, which includes large-scale supercomputing, self-developed deep learning framework, AI chips, AI sensors, large-scale data processing and encryption technologies, all of which epitomize the essence of SenseTime R&D. SenseCore also delivers world-leading AI computing power. As of the end of 2021, the total computing power of our 23 supercomputing clusters was 1.17 exaflops. This combined with the new generation AIDC in Lingang, Shanghai, opened in January 2022 which has a designed peak computing power of 3.74 exaflops, together we can complete training state-of-the-art AI model with the world's largest number of parameters within a single day. As at the end of 2021, SenseCore produced more than 34,000 commercial models, an increase of 152% from 13,000 a year ago. SenseCore also enhanced the productivity of our R&D team, the average team member produced 5.94 models in 2021, an increase of 72% compared to 3.45 models in 2020, which is even more stellar when one compares with 0.44 model in 2019, implying an increase of 13 folds. With the support of SenseCore, we accelerated and cemented our leading position in four major revenue streams, Smart Business, Smart City, Smart Life and Smart Auto. We have empowered billions of IoT devices in automobiles, mobile phones, urban and commercial spaces, running more than one trillion AI inferences every day, achieving our vision of connecting the physical world with the digital world. Going forward, our model performance and production capacity will continue to improve as we continue to upgrade SenseCore and access more data to suit more scenarios. Lower model production costs and larger model production capacity enable us to empower customers in a more affordable and in-depth manner, ensuring SenseTime's long-term business competitiveness and growth momentum alike.

SMART BUSINESS

2021 marked the acceleration of integration of digital technology and the underlying economy, as a result, digital transformation has become a strategic goal for many enterprises, leading to robust Smart Business segment. Our customers, most of which are leaders in their own respective industries, have chosen to use our SenseFoundry-Enterprise platform, which embeds more than 13,000 AI models in one-stop to build various AI applications, allowing digitalized and automated production activities, space operation and process management protocol. In 2021, revenue from Smart Business segment reached RMB1.96 billion, an increase of 31.8% year on year. We served 922 customers during the year, an increase of 8.7% year on year, revenue per customer also increased by 21.3%. Among these customers, more than 200 are either Fortune 500 companies or listed companies, spanning industries from utility management, manufacturing, infrastructure operation and maintenance, logistics, transportation, park management, retail, real estate management to telecommunications. Our key customers include market leaders such as State Grid, Southern Grid, Beijing-Shanghai High-speed Railway, China Telecom, SoftBank Group and Alibaba Cloud, etc. We ranked #1 in market share of computer vision software for enterprise applications in China.

In the previous internet revolution, large amount of online data has spawned the popularization of "search engine" and "recommendation system", enabling labelling, structuring, analytics of these data, and resulting in effective access to information. In fact the access to information is so efficient that people can easily spend hours on various mobile applications. By comparison, our daily activities in the physical world generate even more data than those on the internet, and hence the digitization of the physical world requires even more powerful AI-driven search and recommendation engines to convert these data into valuable information so as to develop data-driven intelligent decision-making capabilities and improve the production and operation efficiency of enterprises. SenseFoundry-Enterprise was born with this in mind, through the large-scale deployment of computer vision-based perception, identification, decision making, augmented reality and interactive AI algorithms, SenseFoundry-Enterprise serves as the "search engine" and "recommendation system" of enterprises, and has become a new digital infrastructure prerequisite for enterprise digital transformation, empowering its users and creating new productivity that every enterprise can utilize and benefit from.

SMART CITY

We believe that future cities will be fully digitalized and "smart", i.e., large and complex operation and management decisions will be fully empowered by AI. SenseFoundry is our answer to this vision, this is a future-oriented digital management platform that we designed alongside managers of first tier cities. SenseFoundry is similar to SenseFoundry-Enterprise, which tackles structural analysis of massive data in physical space. By continuously expanding and deep diving into more industries and scenarios, the system enhances and upgrades its AI capabilities constantly. We help city managers to achieve efficient urban governance by covering scenarios such as transportation, emergency response, epidemic prevention, disaster recovery and environmental protection etc. In 2021, with the initiation of "centralized management through one network" programme and other urban governance modernization mandate, the number of cities covered by our SenseFoundry has increased significantly, becoming the preferred platform for digital upgrading of many cities. As of the end of 2021, SenseFoundry was deployed in 140 cities, an increase of 48.9% compared to the end of 2020, including 15 mega cities with over ten million population such as Shanghai and Shenzhen, as well as 4 overseas cities. With the increase in both coverage and penetration rate of SenseFoundry in more cities, increasing city data and application scenarios are available, it enables us to produce and launch more long-tail AI applications, which is key to city management. As of end of 2021, number of AI models installed in SenseFoundry increased to 22,425, representing an increase of 156% compared to the end of 2020. Revenue from Smart City segment reached RMB2.14 billion, representing an increase of 56.5% year-on-year. We ranked #1 in the market share of computer vision software for smart cities in China[2].

SMART LIFE

Our Smart Life segment empowers consumer-facing enterprises with AI capabilities. Our clients include mobile phone manufacturers, various APP developers, game developers and medical institutions, etc. In 2021, revenue from our Smart Life segment reached RMB415 million. Initially we entered to this consumer-facing market by providing AI SDKs to smart phone manufacturers and APP developers. More than 1.5 billion smart phones have installed our SDKs, and all top-notch smart phone manufacturers in China are our customers. Functions such as face unlock, super-resolution, night view enhancement and smart albums have now become the standard configuration of smart phones. We are convinced that AI software embedded hardware will become the key trend in this business and the integration of AI software with sensors and ISP chips will further create massive market. We started to convert to the "AI software embedded hardware" strategy two years ago and continued to transform our business model in 2021. Now we have a three-pronged strategy consisting of AI sensors, AI ISP chips and SDK, which not only allows us to build higher entry barriers, but also drives our business model to transform from SDK licensing fee to the IP licensing fee of AI sensors and sales of ISP chips, the latter two are stickier. We collaborated with a global leading semiconductor company to successfully delivered four AI sensors in 2021, leading the way for enhancement of AI image quality, lower power consumption and stronger privacy protection when processing images and videos taken by smart phones. Our first core IP was adopted by a leading mobile phone manufacturer. The R&D of our ISP chips designed for AI sensors is also progressing smoothly, and we aim to go to market in 2022. The advantages of our AI software, combined with the strengths of our partners in semiconductor, will bring a new generation of innovative products to the global mobile phone and IoT market, breathing new momentum into our Smart Life segment.

2 According to the Frost & Sullivan Report, the main contents of which are set out in the Prospectus.

Another important component of Smart Life is SenseMARS, our Metaverse-enabling platform. 2021 was considered the inception year of Metaverse, which called for broader application of AI technology. We have key modules in place on our SenseMARS platform, including AI generated content, 3D reconstruction, digital humans and avatar, etc, all of which enable easier and faster development of Metaverse applications. More than 200 mobile applications and mobile games have adopted our SenseMARS to build Metaverse applications, and more than 60 shopping malls, museums and airports have developed AR interactive applications based on SenseMARS to better serve and engage their customers. SenseMARS aims to become the go-to Metaverse-enabling platform in the industry, to bring new experiences to consumers, to witness the birth of new Metaverse killer apps on the platform.

SMART AUTO

The Smart Auto industry in the digital era has broad market prospects. The automobile industry is facing unprecedented evolution. AI has become a core factor affecting automobile's branding, pricing and consumer awareness. As early as 2017, SenseTime established a long-term strategic cooperation with Honda, becoming the first AI enterprise in Asia to cooperate with a top 5 automobile company globally to develop autonomous driving technology, which enabled us to accumulate extensive experience in the field of Smart Auto. According to the Global Smart Auto Patent Rankings published by IPRDaily in 2021, SenseTime ranked tenth globally. In 2021, revenue from Smart Auto segment amounted to RMB184 million, representing a year-on-year increase of 16.3%. In 2021, SenseTime launched SenseAuto as our Smart Auto Platform to push forward full-suite product commercialization in ADAS, smart cabin, vehicle-to-road connect, L4-level autonomous driving and Robobus. In 2021, we signed contracts with more than 30 automobile companies, including leading domestic and overseas brands. We have been selected as the supplier to pre-install our ADAS and smart cabin products for more than 23 million automobiles across over 60 vehicle models in the next five years, which will bring us scalable business growth.

Autonomous driving technology remains to be our long-term R&D priority. Our technology is based on the effective utilization of vehicle data, trained by SenseCore with industry-leading computing power and algorithm iteration efficiency. Working with our partners, we efficiently screen on-demand return of vehicle data, continuously reduce the cost of data acquisition and processing, and achieve faster technology iteration with the help of huge computing power. We are confident that we will continue to lead the advancement of autonomous driving technology in China. We have also established a vehicle-to-road connect platform to connect the perception of road sensors to the vehicle end, thus allowing autonomous vehicles to have more comprehensive perception capabilities and improve the driving ability in complex traffic scenarios. The ultimate goal of smart auto is smart transportation with multidimensional data connection, which will enable wider value creation for transportation management, logistics, mobility services, etc.

SENSECORE AND INTEGRATED R&D

Our research and development goal is to continuously produce the most advanced AI models for every industry, and continuously reduce the model production costs. The technical barriers to produce advanced AI models have been increasing year by year due to the exponential increase in scale of the parameters in AI models, training data consumption and computing power consumption. Thanks to our proprietary SenseCore AI infrastructure and our design capabilities of large models, as well as the data resources and abundant application scenarios in China, SenseTime has built unique technological barriers in the field of AI R&D.

We continue to open-source our technologies to empower the academic and industrial ecosystem. Following the upgrade of OpenMMLab, the AI algorithm open-source platform, we further open-source OpenPPL, the high-performance deep learning inferencing engine, and OpenGVLab, the general vision open-source platform. Together with Shanghai Artificial Intelligence Laboratory and other institutions, we jointly released OpenDILab, the decision-making intelligence open-source platform, and "INTERN", a new generation of general vision technology system. As of the end of 2021, the cumulative downloads by developers on the OpenMMLab exceeded one million, and more than 47,000 stars were obtained on GitHub, with users from 110 countries and regions around the world. It has become one of the most popular computer vision algorithm libraries in the field of deep learning worldwide. "INTERN", the new generation of general vision technology system released in November 2021, has achieved significant elevation in accuracy and data usage efficiency compared with the state-of-the-art general vision model published so far (i.e., CLIP released by OpenAI in 2021). Based on the same training data sets, the average error rates of "INTERN" on the 26 data sets for classification, object detection, semantic segmentation and depth estimation have reduced by 40.2%, 47.3%, 34.8% and 9.4%, respectively. "INTERN" is particularly remarkable in the improvement of data efficiency: it only requires 1/10 of training data to outperform the accuracy of CLIP trained with the whole data set.

In the spirit of open science, we actively share our research with the world. During 2015-2021, SenseTime published more than 560 papers in top-tier academic conferences, e.g. CVPR, ICCV and ECCV, leading in the computer vision field globally.

In 2021, SenseCore made significant progress in adapting to domestic GPU chips, allowing training of AI models based on domestic chips. We have recorded parallel training speed that exceeds the performance of NVIDIA V100 when training common AI models, laying the technical foundation for full-stack training. We have jointly initiated the Artificial Intelligence Computing Power Industry Alliance (AICPIA) with more than 30 leading semiconductor companies, universities and national standards institutions in China, in order to promote the development and sharing of AI computing power. We have also formed a joint lab with the Institute of Standardization of the Ministry of Industry and Information Technology (MIIT) for AI computing and chip evaluation.

In 2021, our self-developed AI inference chip STPU S100-0AC was successfully applied in our SenseFoundry-Enterprise and SenseFoundry products, and became the core component of our standard product offering. Compared to general-purpose GPUs, our STPU powered intelligent processing card can increase the number of processed video streams by three times at the same cost. Our integrated products, such as STPU chips and STPU intelligent processing cards, bring more cost-effective smart computing solutions to our Smart Business and Smart City customers. By the end of 2021, we have shipped more than 16,000 units of STPU S100-0AC chips. At the same time, our development on AI training chips progressed steadily, which will drive a critical upgrade for SenseCore as the chips in design will achieve better training performance for our next generation of ultra-large base models.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Artificial intelligence, as an emerging technology that is gradually applied in various areas and recognized by the public, also requires a balance between technological advancement and environmental, social and governance responsibilities. We have been investing in this area early on, and we would like to take this opportunity to recap our efforts in the area of ESG. For more details, please refer to our Environmental, Social and Governance Report on page 71.

Carbon Peak & Neutrality Goals

As a representative of high tech company, SenseTime has fully harnessed its technological advantages to take carbon emission as an important factor in its decision making. We have proactively built the internal environmental governance system and have officially launched the Group's carbon neutral strategy during the reporting period. We have set the goal of achieving "carbon peak in 2025, operational carbon neutrality in 2030, and net zero emission in 2050". In order to implement the Group's environmental strategy, we have established the Carbon Neutral Development Research Center to focus on our own carbon reduction as well as exploring feasible path for carbon reduction with AI technology.

We have been building the intelligent computing center ("AIDC") in Shanghai Lingang since 2020, which could be the largest AIDC in Asia upon completion. As a carrier of AI computing power, data and algorithms, the Shanghai Lingang AIDC provides end-to-end services from AI infrastructure, to AI core technology, and AI knowledge output, and empowers the industrial upgrading of various industries. The Shanghai Lingang AIDC monitors key parameters of energy consumption real time, and aims to reduce energy consumption by optimising the energy system, applying energy conservation technology and operating in a low-carbon way. In addition, by providing large-scale elastic computing power and high-performance deep learning platform, we can realize mass production of AI models with scale, low cost, and high efficiency, hence reducing the average energy consumption of AI model production, making green AI possible.

Social Responsibility

AI-enabled Winter Olympics: With the support of the Ministry of Science and Technology, SenseTime empowered the Winter Olympics through the integration of AI and AR technologies, breaking the limitations of time and space, transforming the game into an easy-to-understand interactive form with digitization and virtualization. Our technology provided extraordinary viewing experience to the online public, and helped achieving Beijing Winter Olympics' goal of "driving 300 million people to participate in ice and snow sports". Beijing Winter Olympics was a key catalyst for China to build a leading sporting nation, and SenseTime's technology made sure everyone, both online and onsite, could experience the charm of ice and snow sports during Beijing Winter Olympics.

AI-enabled Digital Villages: The 14th Five-Year Plan and the outline of the 2035 vision clearly propose to "accelerate the construction of digital villages". In October 2021, SenseTime and the government of Songyang County, Lishui City, Zhejiang Province started a journey to explore AI in rural cultural tourism. Through VR/AR/MR and other technologies, the old historical appearance of ancient buildings in hundreds of years ago was restored, and by adding digital signage, the inheritance story behind the historical monuments was vividly presented. With the technology of AI+AR, rural culture can break the limitations of physical space and time and be presented to the public in the form of different media. At the same time, digital creative products and special tourism IP are developed based on the unique and intangible cultural heritage of rural areas, which can further add value to the rural cultural tourism and consumption industry.

Fighting COVID-19: Since the outbreak of COVID-19 epidemic, we have been actively supporting the pandemic prevention and control effort with our technology. In addition to providing high-performance computing resources for drug and virus-related research to scientific research institutions, we launched the "AI Intelligent Pandemic Prevention Solution", helping public transportation hubs such as terminals and subway stations in various location to improve the screening efficiency of suspected patients in transportation hubs. We built the SenseTime SenseThunder-E thermal imaging body temperature measurement machine with high-precision algorithm to quickly detect abnormal conditions such as high body temperature or lack of masks etc., so as to prevent possible spread of the pandemic. As the pandemic impacts the globe, our AI-based smart pandemic prevention solutions and products have been widely used around the world, ensuring the safety of communities and workplaces, reducing the risk of infection for frontline workers, and helping the resumption of work and school.

AI Education: SenseTime has been actively dovetailing with Shanghai's strategic needs to build a globally influential science and technology innovation center, promoting science and technology education in primary and secondary schools, and applying AI to education. We have been selected as one of the first batch of Science and Innovation Education Bases for Shanghai students (2021-2024). In 2020, SenseTime launched the "Liaoyuan Plan", an AI teacher training program aimed at improving teachers' capabilities. In the second phase of the program in 2021, a total of 192 teachers from 19 provinces and cities across China participated. In Qingdao, for example, since the launch of the program, a total of five teacher training sessions have been conducted, covering seven districts and three cities in Qingdao, benefiting all elementary school and 147 AI pilot schools in the city, with a total of more than 1,400 participants.

Information Security and Governance

Data security and privacy protection are fundamental requirements of SenseTime's data platform, and we adhere to the highest standards of information security and data privacy regulations. In this regard, SenseTime has established the Data Security and Personal Information Protection Management Committee to strictly enforce data security controls and create industry benchmark for product privacy and security. Over the years, SenseTime has continued to focus on building a robust data privacy protection management system. SenseTime has passed a number of certifications, including ISO/IEC 27001:2013 Information Security Management System Certification, Personal Identity Protection Management System Certification (ISO/IEC 29151:2017) and Privacy Information Management System Certification (ISO/IEC 27701:2019), and was the first AI company to obtain all three certifications. Meanwhile, we have obtained the certification of international privacy standard BS10012 (which is in line with EU GDPR Personal Information Protection Act) to suit the needs of overseas business. We will continue to relentlessly pursue high standards in the field of privacy protection.

SenseTime actively participates in the development of standards at the national and industry levels, providing its own practical experience in AI innovation and governance for this purpose. SenseTime has participated in more than 70 domestic and international standards organizations and compiled more than 130 standards in total, covering fundamental technologies such as AI, computer vision, data security and other application fields such as security, augmented reality, autonomous driving, AI chips and finance. As the deputy leader of the Trustworthy AI National Standards Working Group, SenseTime is currently involved in drafting 13 national or organizational AI ethical standards initiated by the Working Group, including AI – Risk Assessment Model, AI – Ethical Risk Assessment Guide, etc. Within the Group, we vigorously promote the construction of the standard system for AI technologies and products, comprehensively implement the national standards, promote the healthy development of the industry, and contribute SenseTime's wisdom to the cause of AI ethical governance.

STRATEGIC OUTLOOK

AI-as-a-Service based on SenseCore

In 2022, we plan to further open our SenseCore capabilities to the market. We expect massive market demand for AI computing services, as the digitalization of cities and enterprises expands and the development of Metaverse and autonomous driving accelerates. Since the traditional cloud computing services can no longer effectively meet the demand for AI computing, the market has high demand for our SenseCore capabilities. We have already validated the commercial value from SenseCore when we tested out our AI-as-a-Service business model on several large customers in Smart City and Smart Auto. In January 2022, our next generation AI Data Centre (AIDC) in Lingang, Shanghai was officially launched. The AIDC was awarded the title of "Shanghai AI Integration and Empowerment Center" by the Shanghai Municipal Commission of Economy and Information Technology. It will provide AI-as-a-Service to a wide range of industries, scientific research institutions and city managers, and as a result improve AI productivity and penetration rate, thus accelerating the digital transformation of all industries. The successful launch of Shanghai Lingang AIDC marks an important achievement of our long-term strategy in building the universal AI infrastructure. It will not only become the foundation for deeper integration of AI with the economy, daily life and governance and driving sustainable productivity growth, but also accelerate AI technology breakthrough and promote domestic computing chips by cultivating a prosperous AI ecosystem. We are committed to building a world-leading AI computing center and leading the development of AI industry by providing sustainable and inclusive AI computing power to the society.

Establishment of Intelligent Automotive Group and Digital World Group

In the first quarter of 2022, we upgraded our organizational structure, setting up the Intelligent Automotive Group. We will step up our efforts in the development of Smart Auto business, stay committed to building our SenseAuto as the most influential AI-empowering platform and leading the intelligent transformation of the automobile industry. We have also established the Digital World Group to fully integrate our advantages in AI perception, AR and MR technologies, computing power and customer ecology, aiming to build an industry-leading Metaverse-enabling platform. We will provide a number of key technological engines for Metaverse, including 3D reconstruction engine, digital humans and avatar engine, AIdriven content generation engine and a game AI-bot engine, so that all kinds of industries can easily build Metaverse. With the convergence of social network, AI content generation, smart hardware and other ecosystems and the rapidly advancing capabilities of AI, our Digital World Group will close the value loop in terms of enhancing personal experience, facilitating remote collaboration, stimulating creativity and supporting title validation.

Impact of the COVID-19 Pandemic

The world has been profoundly changed by the COVID-19 pandemic since early 2020. Inevitably our operations have been affected by the uncertainties brought by the pandemic. Especially, the recent wave of Omicron Variant has caused lockdown in several cities in China, in which we have operations. The lockdown resulted in temporary disruption in our supply chain, causing 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 have also introduced a series of measures to protect our employees, including the temporary closure of some of our offices, remote working arrangements, and travel restrictions or suspension in view of the lockdown. These measures resulted in temporary reduction in the capacity and efficiency of our operations.

Despite the negative impact of the COVID-19 pandemic, we also notice that new opportunities arise from the challenges. For example, we notice that municipalities continue to focus on digital transformation that could help prevent and fight the pandemic more efficiently, including public space management and smart healthcare products which further integrate contactless temperature measurement, identity verification, vaccine record and other data. As this wave of Omicron Variant is still evolving, we will continue to monitor the situation and adapt our operation strategy accordingly.

Looking ahead, we are confident and looking forward to the development of China’s digital economy. In ten years, AI will bring profound changes to how we work, live and govern. We are confident in maintaining our long-term competitive edges. We will continue high growth rate in 2022, and optimize operational efficiency while maintaining the industry-leading level of R&D investment. We believe that AI will take human civilization to the next level, but it also requires talents, long-term capital, encouraging policy, and social consensus. As the leading AI company in China, SenseTime strives to pioneer the development of AI and fulfill the mission of “to create a better AI-empowered future through innovation”.

Management Discussion and Analysis

Year ended December 31, 2021 compared to year ended December 31, 2020

The following table sets forth the comparative figures for the years ended December 31, 2021 and 2020:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Revenue	**4,700,263**	3,446,165
Cost of sales	**(1,422,625)**	(1,014,081)
Gross profit	**3,277,638**	2,432,084
Selling expenses	**(681,584)**	(536,521)
Administrative expenses	**(2,298,362)**	(1,589,519)
Research and development expenses	**(3,614,140)**	(2,453,874)
Net impairment losses on financial assets	**(517,608)**	(522,046)
Other income	**504,280**	352,784
Other (losses)/gains – net	**(399,958)**	505,314
Operating loss	**(3,729,734)**	(1,811,778)
Finance income	**187,716**	174,902
Finance cost	**(33,758)**	(112,509)
Finance income – net	**153,958**	62,393
Share of losses of investments accounted for using the equity method	**(40,231)**	(6,055)
Fair value losses of preferred shares and other financial liabilities	**(13,525,537)**	(10,563,577)
Loss before income tax	**(17,141,544)**	(12,319,017)
Income tax (expenses)/credit	**(35,506)**	160,670
Loss for the year	**(17,177,050)**	(12,158,347)
Loss is attributable to:		
Equity holders of the Company	**(17,140,086)**	(12,158,193)
Non-controlling interests	**(36,964)**	(154)
	(17,177,050)	(12,158,347)
Non-IFRS measures:		
Adjusted EBITDA	**(878,970)**	(531,849)
Adjusted net losses	**(1,418,348)**	(878,438)

Year ended December 31, 2021 compared to year ended December 31, 2020

Revenue

Our revenue increased by 36.4% to RMB4,700.3 million in 2021, compared to RMB3,446.2 million in 2020, primarily due to the growth in Smart City and Smart Business. The following table sets out a breakdown of our revenue by revenue streams in absolute amounts and as percentages of our total revenue for the periods indicated:

	Year ended December 31,			
	2021		2020	
	RMB million	%	RMB million	%
Smart Business	1,957.9	41.7	1,485.0	43.1
Smart City	2,142.8	45.6	1,368.9	39.7
Smart Life	415.4	8.8	433.9	12.6
Smart Auto	184.2	3.9	158.4	4.6
Total	4,700.3	100.0	3,446.2	100.0

Our Smart Business revenue increased by 31.8% to RMB1,957.9 million in 2021, compared to RMB1,485.0 million in 2020. The increase was primarily due to (i) the expansion in our customer base for Smart Business with the number of customers increasing from 848 in 2020 to 922 in 2021, (ii) the upgrade of our SenseFoundry-Enterprise platform for our existing industry verticals, such as commercial space management and residential property management, and the creation of new functions including those that can interface with our future Metaverse offerings; and (iii) the increasing revenue from customers in infrastructure and transportation industries, as we developed our software platforms suitable for these industry verticals' launch customers.

Our Smart City revenue increased by 56.5% to RMB2,142.8 million in 2021, compared to RMB1,368.9 million in 2020, primarily due to (i) our expansion in domestic city coverage and stronger market penetration, largely driven by the recovery and increase in demand for our city management software platforms with COVID-19 pandemic generally under control in Mainland China; the cumulative number of cities served increased from 94 at the end of 2020 to 140 at the end of 2021, and (ii) our offering expansion and functional upgrades to meet end customers' growing demand for more comprehensive and sophisticated city management tools.

Year ended December 31, 2021 compared to year ended December 31, 2020

Cost of Sales

Our cost of sales increased by 40.3% from RMB1,014.1 million in 2020 to RMB1,422.6 million in 2021. 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,			
	2021		2020	
	RMB million	%	RMB million	%
Hardware costs and subcontracting service fees	1,265.4	89.0	909.5	89.7
Server operation and cloud-based service fees	1.5	0.1	1.4	0.1
Employee benefit expenses	80.1	5.6	57.0	5.6
Other expenses	75.6	5.3	46.2	4.6
Total	1,422.6	100.0	1,014.1	100.0

The increase in cost of sales was primarily attributable to the increase in hardware costs and subcontracting service fees, which generally grew in line with the growth of our revenue.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 34.8% from RMB2,432.1 million in 2020 to RMB3,277.6 million in 2021. Our gross margin remained relatively stable in 2021.

Research and Development Expenses

Our research and development expenses increased by 47.3% from RMB2,453.9 million in 2020 to RMB3,614.1 million in 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 R&D employees.

Selling Expenses

Our selling expenses increased by 27.0% from RMB536.5 million in 2020 to RMB681.6 million in 2021, primarily due to an increase in employee benefit expenses. Without regard to the effect of share-based compensation expenses, selling expenses as a percentage of our revenue would have decreased from 14.6% in 2020 to 13.5% in 2021.

Administrative Expenses

Our administrative expenses increased by 44.6% from RMB1,589.5 million in 2020 to RMB2,298.4 million in 2021, primarily due to an increase in the employee benefit expenses as a result of (i) an increase in share-based compensation expenses to our management team and administrative staff, (ii) the expansion of our administrative team to support our growing business, and (iii) the listing expenses incurred in 2021 in connection with the initial public offering. Without regard to the effect of share-based compensation expenses and listing expenses, administrative expenses as a percentage of our revenue would have decreased from 29.6% in 2020 to 25.1% in 2021.

Year ended December 31, 2021 compared to year ended December 31, 2020

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets decreased by 0.8% from RMB522.0 million in 2020 to RMB517.6 million in 2021 primarily due to decreased impairment provision for trade and other receivables.

Other Income

Our other income increased by 42.9% from RMB352.8 million in 2020 to RMB504.3 million in 2021 primarily due to an increase in government grants.

Other (Losses)/Gains, Net

We had net other losses of RMB400.0 million in 2021 compared to net other gains of RMB505.3 million in 2020, primarily due to fair value losses on financial assets at fair value through profit or loss amounting to RMB514.7 million, partially offset by net foreign exchange gains of RMB132.4 million.

Finance Income, Net

Net finance income increased from RMB62.4 million in 2020 to RMB154.0 million in 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 increased from RMB10,563.6 million in 2020 to RMB13,525.5 million in 2021 resulting from changes in the valuation of our Company. As our initial public offering completed in the end of 2021, we do not expect to recognize any further loss or gain on fair value of preferred shares issued by the Company in 2022.

Income Tax (Expenses)/Credit

We had income tax expenses of RMB35.5 million in 2021, compared to income tax credit of RMB160.7 million in 2020 primarily due to an increase in deferred tax liabilities.

Loss for the Year

As a result of the foregoing, we had a loss of RMB17,177.1 million in 2021 primarily due to our R&D efforts and fair value losses of preferred shares, compared to a loss of RMB12,158.3 million in 2020. As our initial public offering was completed in the end of 2021, we do not expect to recognize any further loss or gain on fair value of preferred shares issued by the Company in 2022.

Non-IFRS Measures

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

Year ended December 31, 2021 compared to year ended December 31, 2020

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,	
	2021	2020
	RMB million	RMB million
Loss before income tax	**(17,141.5)**	(12,319.0)
Add:		
Finance income, net	**(154.0)**	(62.4)
Depreciation and amortization	**657.8**	569.7
EBITDA	**(16,637.7)**	(11,811.7)
Add:		
Fair value losses of preferred shares and other financial liabilities	**13,525.5**	10,563.6
Share-based compensation expenses	**1,583.9**	887.0
Fair value (gains)/losses on financial assets at fair value through profit or loss(1)	**514.7**	(170.7)
Listing fee(1)	**134.6**	–
Adjusted EBITDA	**(879.0)**	(531.8)

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,	
	2021	2020
	RMB million	RMB million
Net losses for the year	**(17,177.1)**	(12,158.3)
Add:		
Fair value losses of preferred shares and other financial liabilities	**13,525.5**	10,563.6
Share-based compensation expenses	**1,583.9**	887.0
Fair value (gains)/losses on financial assets at fair value through profit or loss(1)	**514.7**	(170.7)
Listing fee(1)	**134.6**	–
Adjusted net losses	**(1,418.4)**	(878.4)

Note:

(1) Fair value (gains)/losses on financial assets at fair value through profit or loss and Listing fee were not included in non-IFRS measures in our Prospectus.

Year ended December 31, 2021 compared to year ended December 31, 2020

Trade, Other Receivables and Prepayments

Our trade, other receivables and prepayments increased from RMB4,583.5 million as of December 31, 2020 to RMB5,775.9 million as of December 31, 2021. The increase was mainly attributable to an increase in trade receivables, partially offset by a decrease in other receivables.

Trade Receivables

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

	As at December 31	
	2021	2020
	RMB million	RMB million
Trade receivables		
– Due from related parties	**46.0**	186.7
– Due from third parties	**6,018.1**	3,561.7
Provision for impairment	**(980.4)**	(609.8)
Total	**5,083.7**	3,138.6

Our net trade receivables increased by 62.0% from RMB3,138.6 million as of December 31, 2020 to RMB5,083.7 million as of December 31, 2021. Such increasing trend was generally in line with the growth of our business. Our provision for impairment of trade receivables as % of gross trade receivables has remained largely stable, decreasingly from 16.3% as of December 31, 2020 to 16.2% as of December 31, 2021.

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

	As at December 31	
	2021	2020
	RMB million	RMB million
Up to 6 months	**2,659.6**	2,078.0
6 months to 1 year	**1,048.8**	232.0
1 to 2 years	**1,402.8**	1,152.1
2 to 3 years	**852.1**	259.0
More than 3 years	**100.8**	27.3
	6,064.1	3,748.4

Year ended December 31, 2021 compared to year ended December 31, 2020

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

	Year ended December 31,	
	2021	2020
Trade receivables turnover days[(1)]	**319**	293

Note:

(1) Trade receivables turnover days for a period equals the average of the opening and closing net trade receivables balance divided by revenue for the same period and then multiplied by 365 days.

We had relatively long and increasing trade receivables turnover days, primarily because a significant portion of our revenue is derived from Smart City, which typically features a long payment cycle as required by their internal financial management and payment approval processes. Revenue from Smart City as a percentage of our total revenue increased from 39.7% in 2020 to 45.6% in 2021.

Other Receivables

Our other receivables decreased significantly from RMB1,073.8 million as of December 31, 2020 to RMB329.2 million as of December 31, 2021. The decrease was mainly attributable to reduced payments on behalf of customers.

LIQUIDITY AND FINANCIAL RESOURCES

We had historically funded our cash requirements principally from capital contribution from shareholders. We had cash and cash equivalents of RMB16,529.5 million and term deposits of RMB4,990.8 million as of December 31, 2021, compared to the balance of RMB11,427.9 million and RMB5,890.2 million as of December 31, 2020.

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

	Year ended December 31,	
	2021	2020
	RMB million	RMB million
Net cash used in operating activities	**(2,485.4)**	(1,228.8)
Net cash used in investing activities	**(1,548.1)**	(7,070.5)
Net cash generated from financing activities	**9,378.5**	13,185.7
Net increase in cash and cash equivalents	**5,345.0**	4,886.4
Cash and cash equivalents at the beginning of the year	**11,427.9**	6,672.9
Exchange loss on cash and cash equivalents	**(243.3)**	(131.4)
Cash and cash equivalents at the end of the year	**16,529.5**	11,427.9

Year ended December 31, 2021 compared to year ended December 31, 2020

Net Cash Used in Operating Activities

Net cash generated from operating activities represents the cash generated from our operations minus the income tax paid. Cash generated from our operations primarily comprises our profit before income tax adjusted by non-cash items and changes in working capital.

For the year ended December 31, 2021, net cash used in operating activities was RMB2,485.4 million, which was primarily attributable to our loss before income tax, as adjusted by (i) depreciation and amortization, share-based compensation, provision for impairment of financial assets and fair value changes on financial investments at fair value through profit or loss, and (ii) changes in working capital, which primarily comprised an increase in trade and other receivables.

Net Cash Used in Investing Activities

For the year ended December 31, 2021, net cash used in investing activities was RMB1,548.1 million, which was mainly attributable to purchase of property, plant and equipment, intangible assets, and acquisition of investments in financial assets at fair value through profit and loss, partially offset by net decrease in investments in term deposits.

Net Cash Generated from Financing Activities

For the year ended December 31, 2021, net cash generated from financing activities was RMB9,378.5 million, which was mainly attributable to proceeds from issuance of preferred shares and net proceeds from issuance of ordinary shares relating to the initial public offering, partially offset by repayments of amount due to preferred shareholders, representing the deposits previously received from certain preferred shareholders in accordance with relevant share purchase agreements.

Borrowings

As of December 31, 2020 and December 31, 2021, we had total borrowings of RMB1,016.6 million and RMB339.9 million, respectively. Repayment analysis and the currency denomination of bank borrowings of the Group as at December 31, 2021 are set out in Note 36 to the consolidated financial statements.

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

Exposure to Exchange Rate Fluctuation

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective Group entities' functional currency. The Company's functional currency is USD. The Company's primary subsidiaries were incorporated in Mainland China, Hong Kong, Japan and Singapore. These subsidiaries considered RMB, HKD, JPY and SGD as their functional currencies, respectively.

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

Currency denomination of the cash and cash equivalents held by the Group are set out in Note 27 to the consolidated financial statements.

Year ended December 31, 2021 compared to year ended December 31, 2020

Employees, Training and Remuneration Policies

As at December 31, 2021, the Group had 6,113 employees. The number of employees employed by the Group varies from time to time depending on needs.

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

Details of the remuneration of employees and the share incentive schemes of the Company are set out in Note 7 to the consolidated financial statements and the section headed "Share Incentive Scheme" in this annual report respectively.

Gearing Ratio

As at December 31, 2021, our gearing ratio was -85.4%, which represented a net cash position. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings, lease liabilities and preferred share and other financial liabilities less our cash and cash equivalents. Total capital is calculated as total equity plus net debt.

Contingent Liabilities

As of December 31, 2021, we did not have any material contingent liabilities.

Significant Investments held

As of December 31, 2021, we did not hold any significant investments in the equity interest of other companies.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

For the year ended December 31, 2021, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Pledge of Assets

As of December 31, 2021, we pledged certain buildings and land use rights with carrying amount of RMB920.7 million for borrowings.

Future Plans for Material Investments and Capital Assets

As of December 31, 2021, save as otherwise disclosed, we have no specific plan for material investments and acquisition of capital assets. As disclosed in the Prospectus, the Group will continue to identify new investment opportunities in companies with principal businesses related to the Group's core business with a view to creating synergies with the Group's existing core business and improve the Group's service and products to its customers.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Class B Shares of the Company were listed on the Main Board of the Stock Exchange on December 30, 2021. Since then, the Company has been complying with the corporate governance requirements under the Corporate Governance Code set out in Appendix 14 to the Listing Rules. In the opinion of the Board, throughout the period from the Listing Date and up to the end of the Reporting Period, the Company has complied with all applicable code provisions as set out in the Corporate Governance Code, save for the deviation from code provision C.2.1 (formerly A.2.1 prior to January 1, 2022) which is further explained in the section headed "Chairman and Chief Executive Officer" below.

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

BOARD OF DIRECTORS

Board Composition

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

Executive Directors

Dr. XU Li (徐立) *(Executive Chairman of the Board)*
Prof. TANG Xiao'ou (湯曉鷗)
Dr. WANG Xiaogang (王曉剛)
Mr. XU Bing (徐冰)

Non-executive Director

Ms. FAN Yuanyuan (范瑗瑗)

Independent non-executive Directors

Prof. XUE Lan (薛瀾)
Mr. LYN Frank Yee Chon (林怡仲)
Mr. LI Wei (厲偉)

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

Save that Prof. Tang and Dr. Wang are brothers-in-law, to the best knowledge of the Company, there is no relationship (including financial, business, family or other material/relevant relationship(s)) among the Directors.

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

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

Responsibilities and Delegation

The fundamental responsibilities of the Board are to exercise its best judgment and the Shareholders act in the best interests of the Company and In order to promote the success of the Company, the Board will operate in an efficient and responsible manner and also oversee the work of the management.

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have full and timely access to all the information of the Company, and may upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company. The Directors have disclosed to the Company details of other offices held by them.

The Board reserves its discretion on all major matters relating to policy matters, strategies and budgets, risk management and internal control, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the chief executive officer and management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Chairman and Chief Executive Officer

Pursuant to code provision C.2.1 (formerly A.2.1 prior to January 1, 2022) of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Dr. Xu Li currently performs these two roles. The Board believes that vesting the roles of both executive chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of executive chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Board Meetings

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

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

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

During the Reporting Period, the Company held 2 Board meetings. No Board committee meeting was held, as the Board committees were established with effect from December 30, 2021.

During the period from the Listing Date and up to the Latest Practicable Date, the Company held 1 Board meeting, 1 Audit Committee meeting, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and 1 Corporate Governance Committee meeting. The Company did not hold any general meeting during the Reporting Period. The attendance record of each Director at the above meetings are set out in the table below:

	Attendance/Number of Meetings since the Listing Date and up to the Latest Practicable Date				
Name of Director	**Board**	**Audit Committee**	**Corporate Governance Committee**	**Nomination Committee**	**Remuneration Committee**
Dr. XU Li	1	–	–	1	1
Prof. TANG Xiao'ou	1	–	–	–	–
Dr. WANG Xiaogang	1	–	–	–	–
Mr. XU Bing	1	–	–	–	–
Ms. FAN Yuanyuan	1	1	–	–	–
Prof. XUE Lan	1	–	1	1	–
Mr. LYN Frank Yee Chon	1	1	1	–	1
Mr. LI Wei	1	1	1	1	1

In addition to the above meetings, Dr. Xu Li, the chairman of the Board, held a meeting with the independent non-executive Directors without the presence of the other Directors during the period from the Listing Date and up to the Latest Practicable Date.

Appointment and Re-Election

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

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

Each Director (including the non-executive Director and independent non-executive Directors) is engaged for a term of three years. They are subject to retirement and re-election in accordance with the provisions of the Articles as mentioned above.

Training and Professional Development

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

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

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

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

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

Notes:

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

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

BOARD COMMITTEES

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

Audit Committee

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

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

As the Company was listed on the Stock Exchange on the Listing Date, the Audit Committee did not convene any meetings during the Reporting Period. However, during the period from the Listing Date up to the Latest Practicable Date, the Audit Committee has convened 1 meeting and performed the following major tasks:

- Reviewed the audited annual results and annual report of the Group for the year ended December 31, 2021.
- Discussed matters with respect to effectiveness of the Company's financial reporting system, the system of internal control in operation, risk management system and associated procedures within the Group with senior management members, internal auditors and the Auditor.
- Reviewed the plans, resources and work of the Company's internal auditors.
- Reviewed the continuing connected transactions of the Group carried out during the Reporting Period.
- Reviewed the risk management and internal control systems of the Group.
- Oversaw the risks undertaken by the Company.
- Oversaw the Group's anti-money laundering system.
- Discussed and made recommendation on the re-appointment of the Auditor.
- Reviewed the independence, terms of engagement and remuneration of PricewaterhouseCoopers for annual audit for the Reporting Period.

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

Directors' Responsibilities for Financial Statements

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

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

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

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

Auditor's Remuneration

For the year ended December 31, 2021, the remuneration for the audit services paid to the Auditor (which includes the service fees in connection with the initial public offering) amounted to RMB30,048,000; while the remuneration for the non-audit services (which mainly include professional services on tax advisory and internal control consultation services) amounted to RMB5,030,000.

Corporate Governance Committee

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

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

As the Company's Class B Shares was listed on the Main Board of the Stock Exchange on the Listing Date, the Corporate Governance Committee did not convene any meetings during the Reporting Period. However, during the period from the Listing Date up to the Latest Practicable Date, the Corporate Governance Committee has convened 1 meeting and performed the following major tasks:

- Reviewed and monitored the Company's policies and practices on corporate governance and on compliance with legal and regulatory requirements. The policies reviewed include the code for securities transactions by Directors and relevant employees, the board diversity policy, the shareholders' communication policy, the procedures for nomination of Directors by Shareholders, the disclosure of information policy, the connected transactions policy, the whistle-blowing policy, the dividend policy and other corporate governance policies.

- Reviewed the Company's compliance with the Corporate Governance Code and the deviation from code provision C.2.1 (formerly A.2.1 prior to January 1, 2022), the Company's disclosure in this Corporate Governance Report and the Company's disclosure as required under Chapter 8A of the Listing Rules.

- Reviewed the remuneration, the terms of engagement and the re-appointment of the Compliance Advisor.

- Reviewed and monitored the management of conflicts of interests between the Company, its subsidiary and/or Shareholder on one hand and any WVR Beneficiary on the other.

- Reviewed and monitored all risks related to the weighted voting rights structure, including connected transactions between the Group on one hand and any WVR Beneficiary on the other.

- Reviewed the training and continuous professional development of Directors and senior management, in particular training relating to requirements under Chapter 8A of the Listing Rules and risks associated with the weighted voting rights structure.

- Reviewed the written confirmation provided by the WVR Beneficiaries that (a) they have been members of the Board throughout the year and that no matters under Rule 8A.17 of the Listing Rules have occurred during the year; and (b) they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year.

- Sought to ensure effective and on-going communication between the Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.

- Reviewed the Company's disclosure in the ESG Report to ensure compliance with the ESG Reporting Guide.

- Reviewed the Company's ESG strategy and the work performance and work plan of the Company's ESG team, and provided guidance and supervision to the ESG team.

- Reported on the work of the Corporate Governance Committee covering all areas of its terms of reference.

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

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

Nomination Committee

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

The Nomination Committee comprises three members, namely Mr. Li Wei, Dr. Xu Li and Prof. Xue Lan. Mr. Li Wei is the chairperson of the Nomination Committee.

As the Company's Class B Shares was listed on the Main Board of the Stock Exchange on the Listing Date, the Nomination Committee did not convene any meetings during the Reporting Period. However, during the period from the Listing Date up to the Latest Practicable Date, the Nomination Committee has convened 1 meeting and performed the following major tasks:

- Reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group.

- Assessed the independence of all the independent non-executive Directors.

- Recommended the re-election of the retiring Directors at the 2021 annual general meeting of the Company.

- Reviewed the board diversity policy.

Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse Board and see increasing diversity at the Board level, including gender diversity, as an essential element in maintaining our competitive advantage and enhancing our ability to attract, retain and motivate employees from the widest possible pool of available talent. We have adopted a board diversity policy (the "Board Diversity Policy") with the aim of achieving an appropriate level of diversity among Board members according to the circumstances of the Group from time to time.

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

The Board has a balanced mix of experiences and skills, including but not limited to overall business management, research and development as well as finance and accounting. The Board also has a relatively wide range of age, ranging from 32 years old to 63 years old. The Board believes that based on the meritocracy of the Directors, the composition of the current Board satisfies the Board Diversity Policy.

In terms of gender diversity, the Board currently has one female member. The Board strives to enhance gender diversity in the foreseeable future by increasing the proportion of female Directors.

The Company is committed to promoting gender diversity not only within the Board but among its workforce generally. As at the Latest Practicable Date, the gender ratio in the Company's workforce (including senior management) is as follows:

Male	73%
Female	27%
Total	100%

Nomination Procedures

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

Remuneration Committee

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

The Remuneration Committee comprises three members, namely Mr. Li Wei, Dr. Xu Li and Mr. Lyn Frank Yee Chon. Mr. Li Wei is the chairperson of our Remuneration Committee.

As the Company's Class B Shares was listed on the Main Board of the Stock Exchange on the Listing Date, the Remuneration Committee did not convene any meetings during the Reporting Period. However, during the period from the Listing Date up to the Latest Practicable Date, the Remuneration Committee has convened 1 meeting and performed the following major tasks:

- Reviewed the remuneration policy and remuneration packages of the Directors and the senior management of the Company.

Remuneration Policy

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

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

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

Annual Remuneration	Number of Individuals
HK$0 to HK$15 million	2
HK$16 million to HK$30 million	1
HK$350 million to HK$400 million	1
HK$450 million to HK$500 million	1
HK$600 million to HK$650 million	1

Further details of the remuneration of Directors for the Reporting Period are set out in Note 41 to the Consolidated Financial Statements in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility for the risk management and internal control of the Company. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company is dedicated to the establishment and maintenance of a robust risk management and internal control system. We have adopted and continually improve our internal control mechanisms to ensure the compliance of our business operations. Furthermore, we conduct periodic review of the implementation of our risk management policies and internal control measures to ensure their effectiveness and sufficiency.

We have been committed to promoting a compliance culture and will adopt policies and procedures on various compliance matters, including the Stock Exchange's requirements on corporate governance and environmental, social and governance matters. Our Board will be collectively responsible for the establishment and operations of mechanisms in relation to corporate governance and environmental, social and governance. Our Directors are involved in the formulation of such mechanisms and the related policies.

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

Operational Risk Management

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

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

Compliance Risk Management

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

Compliance management refers to the dynamic managing processes of our effective identification and management of compliance risks and proactively preventing the occurrence of risk events. Compliance risk management is the core of our risk management activities, the foundation for effective internal controls and an important aspect of our corporate culture. We have established a sound compliance risk management framework as part of our comprehensive risk management system, to achieve effective identification and management of compliance risk and ensure that our operations are in compliance with applicable laws and regulations.

Information Security and Data Privacy Risk Management

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

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

Intellectual Property Risk Management

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

- **Uniform and Centralized IP Management:** We conduct uniform and centralized IP management through our legal and IP department. Any application, implementation, authorization or transfer of our intellectual property rights will need to be subject to the approval of our legal and IP department.

- **Shared IP Rights within Group:** Any of our intellectual property rights, as long as they are owned by one of our subsidiaries or controlled entities, can be shared among Group members for manufacturing, import, sales or promise to sell relevant products.

Investment Risk Management

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

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

Anti-corruption Risk Management

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

Ongoing Review

To monitor the ongoing implementation of our risk management policies, we have established an Audit Committee to review and supervise our financial reporting process and internal control system annually in respect of each financial year on an ongoing basis, so as to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The Audit Committee would also review the adequacy of resources, staff qualifications and experience, training programs and budgets of the Group's accounting, internal audit and financial reporting functions, and the Group's ESG performance and reporting. For details, please refer to the section headed "Board Committees – Audit Committee" above.

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

The Board considered the risk management and internal control systems of the Company during the Reporting Period were effective and adequate.

SECURITIES DEALING AND HANDLING OF INSIDE INFORMATION

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regulating Directors' dealings in securities of the Company. In response to specific enquiries made by the Board, all Directors confirmed that they have complied with the provisions of the Model Code during the period from the Listing Date to the Latest Practicable Date.

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

JOINT COMPANY SECRETARIES

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

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

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

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

RELATIONSHIP WITH SHAREHOLDERS

Communication with Shareholders

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

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

Shareholders' Meetings

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

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

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

Corporate Communication

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

Company's Website

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

Shareholders' Enquiries

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

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

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

Policies Relating to Shareholders

Shareholders' Communication Policy

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

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

Dividend Policy

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

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

Shareholders' Rights

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

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

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

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

Pursuant to a special resolution of Shareholders passed on June 23, 2021, the 20th Amended and Restated Memorandum and Articles of Association of the Company were adopted. Further, pursuant to a special resolution of the Shareholders passed on December 3, 2021, the 21st Amended and Restated Memorandum and Articles of Association of the Company were adopted with effect from the Listing Date. Pursuant to the announcement of the Company dated March 27, 2022 (the "Announcement"), the Company proposes to adopt certain amendments to the Amended and Restated Memorandum and Articles of Association of the Company subject to the approval by the Shareholders by way of special resolution. The Memorandum and Articles of Association, and the Announcement setting out the proposed amendments to the Memorandum and Articles of Association, are available on the websites of the Company (www.sensetime.com) and the Stock Exchange (www.hkexnews.hk).

Directors' Report

The Board of Directors is pleased to present this Directors' Report together with the audited consolidated financial statements of the Group for the year ended December 31, 2021.

GLOBAL OFFERING

Issuance and Listing of Class B Shares

The Class B Shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date. 150,000,000 Class B Shares were offered in the Hong Kong public offering, and 1,350,000,000 Class B Shares were offered in the international offering. The offer price was determined at HK$3.85 per offer share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%).

On January 21, 2022, the joint representatives in respect of the Global Offering, on behalf of the international underwriters, fully exercised the over-allotment option in respect of an aggregate of 225,000,000 new Class B Shares (the "Over-allotment Option"), representing 15% of the total number of the offer shares initially available under the Global Offering before any exercise of the Over-allotment Option. The new Class B shares were issued and allotted by the Company at HK$3.85 per offer share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027%, Financial Reporting Council transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%), being the offer price per offer share under the Global Offering.

Net Proceeds from the Global Offering

Based on the offer price of HK$3.85 per offer share, the net proceeds from the Global Offering received by the Company, including the full exercise of the Over-allotment Option, after deduction of the underwriting commissions and other expenses payable by the Company in connection with the Global Offering, were approximately HK$6,351 million.

There has been no change in the intended use of proceeds from the Global Offering as previously disclosed in the Prospectus, and the expected timeline for the use of proceeds will be subject to the business development of the Company. Please refer to the section headed "Future Plans and Use of Proceeds" of the Prospectus for details. As of December 31, 2021, the Group has not utilized any portion of the net proceeds from the Global Offering.

GENERAL INFORMATION ABOUT THE COMPANY

Principal Activities

The Group is a leading AI software company with a focus on computer vision technologies, serving a broad range of industries. The principal activities of the Group are the sale of advanced AI software, sale of AI software-embedded hardware and related services as well as research and development activities in relation to AI technology. The Company is an investment holding company and details and principal activities of its principal subsidiaries are set out in Note 11 to the consolidated financial statements.

Business Review

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

Results and Appropriations

The results of the Group for the year ended December 31, 2021 are set out in the consolidated statement of profit or loss.

Dividend Policy and Final Dividend

The Company has adopted a dividend policy in relation to the declaration, payment or distribution of the Company's net profits as dividends to the Shareholders. For details regarding the dividend policy, please refer to the section headed "Dividend Policy" of the Corporate Governance Report. In compliance with this policy and upon due consideration of the Shareholders' and the Company's long-term interests, the Board has resolved not to recommend any final dividend for the year ended December 31, 2021.

Four-Year Financial Summary

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

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 16 to the consolidated financial statements.

Share Capital

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

Distributable Reserves

As at December 31, 2021, the Company had distributable reserves amounting to RMB70,155.9 million.

Details of the movements in the reserves of the Company during the Reporting Period are set out in Note 44 to the consolidated financial statements.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2021 are set out in Note 36 to the consolidated financial statements.

Issuance of Debentures

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

Public Float

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

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

The Class B Shares of the Company were listed on the Stock Exchange on December 30, 2021. During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Pre-Emptive Rights

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

Donations

During the Reporting Period, the Group made charitable donations of approximately RMB8.9 million.

Tax Relief

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

Major Customers and Suppliers

For the Reporting Period, revenue generated from the five largest customers of the Group accounted for approximately 41.1% of the Group's total revenue, and the revenue generated from the largest customer accounted for approximately 11.7% of the Group's total revenue.

For the Reporting Period, purchase amounts from the five largest suppliers of the Group accounted for approximately 60.3% of the Group's total purchase, and the purchase amounts from the largest supplier accounted for approximately 27.2% of the Group's total purchase.

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

Contracts with Controlling Shareholders

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

Management Contracts

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

Legal Proceedings and Compliance

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

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

Corporate Governance

For details regarding the Company's corporate governance, please refer to the Corporate Governance Report on pages 23 to 39 of this annual report.

Environmental Policies and Performance

For details regarding the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report on pages 71 to 102 of this annual report.

WEIGHTED VOTING RIGHTS

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

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

As at December 31, 2021, the WVR Beneficiaries were Prof. Tang Xiao'ou, Dr. Xu Li, Dr. Wang and Mr. Xu Bing.

As at December 31, 2021:

(1) Prof. Tang Xiao'ou beneficially owned 6,906,080,602 Class A Shares and was indirectly interested in and controlled 1,891,820,000 Class B Shares, representing approximately 70.22% of the voting rights in the Company on resolutions in general meetings of the Company (except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote). The Class A Shares beneficially owned, and Class B Shares indirectly controlled by Prof. Tang Xiao'ou were held by Amind, a company wholly owned by Prof. Tang Xiao'ou.

(2) Dr. Xu Li beneficially owned 286,317,668 Class A Shares and 565,386,529 Class B Shares, representing approximately 3.39% of the voting rights in the Company on resolutions in general meetings of the Company (except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote). The Class A Shares beneficially owned by Dr. Xu Li were held by XWorld, a company wholly owned by Dr. Xu Li, and the Class B Shares were held through SenseTalent.

(3) Dr. Wang Xiaogang beneficially owned 232,171,633 Class A Shares and 302,140,243 Class B Shares, representing approximately 2.60% of the voting rights in the Company on resolutions in general meetings of the Company (except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote). The Class A Shares beneficially owned by Dr. Wang Xiaogang were held by Infinity Vision, a company wholly owned by Dr. Wang Xiaogang, and the Class B Shares were held through SenseTalent.

(4) Mr. Xu Bing beneficially owned 104,190,097 Class A Shares and 252,236,581 Class B Shares, representing approximately 1.28% of the voting rights in the Company on resolutions in general meetings of the Company (except for resolutions in relation to the Reserved Matters, in relation to which each Share carries one vote). The Class A Shares beneficially owned by Mr. Xu Bing were held by Vision Worldwide, a company wholly owned by Mr. Xu Bing, and the Class B Shares were held through SenseTalent.

Class A Shares may be converted into Class B Shares on a one to one ratio. Upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 7,528,760,000 Class B Shares, representing approximately 29.23% of the total number of issued and outstanding Class B Shares as at December 31, 2021.

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

(1) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where all of the WVR Beneficiaries are: (1) deceased; (2) no longer members of our Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as directors; or (4) deemed by the Stock Exchange to no longer meet the requirements of directors set out in the Listing Rules;

(2) when the holders of Class A Shares have transferred to other persons the beneficial ownership of, or economic interest in, all of the Class A Shares or the control over the voting rights attached to them, other than in the circumstances permitted by Rules 8A.18 of the Listing Rules;

(3) where the vehicles holding Class A Shares on behalf of both WVR Beneficiaries no longer comply with Rule 8A.18(2) of the Listing Rules; or

(4) when all of the Class A Shares have been converted to Class B Shares.

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

SHARE INCENTIVE SCHEMES

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

Pre-IPO RSU Plan

The following is a summary of the principal terms of the Pre-IPO RSU Plan of the Company as approved by the Board on November 1, 2016 and amended from time to time. The terms of the Pre-IPO RSU Plan are not subject to the provisions of Chapter 17 of the Listing Rules, as the Pre-IPO RSU Plan will not involve the grant of options by the Company to subscribe for the Company's Shares.

Purpose

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

Effectiveness and Duration

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

Administration

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

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

Participants

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

Maximum Number of Shares

The maximum number of Shares underlying the Pre-IPO RSU Plan ("RSU Limit") is 492,327,394 Shares, all of which have been issued and held by SenseTalent.

Terms and Conditions of RSU Award

Grant of RSU Awards

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

Acceptance of RSU Awards

If the selected person intends to accept the offer of grant of RSU Awards as specified in the grant letter, he or she is required to sign the acceptance notice and return it to the Company within the time period pursuant to the terms of the Pre-IPO RSU Plan. Upon the receipt from the selected person of a duly executed acceptance notice, the RSU Awards are granted to such person, who becomes a grantee pursuant to the Pre-IPO RSU Plan.

Conditions of RSU Awards

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

Rights attached to RSU Awards

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

Exercise of RSU Awards

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

Alteration and Termination of the Pre-IPO RSU Plan

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

RSUs granted under the Pre-IPO RSU Plan

As at December 31, 2021, RSUs in respect of 492,327,394 underlying Shares were granted to a total of 59 grantees (including Directors, members of senior management and other connected persons of the Company).

The maximum number of Shares underlying the Pre-IPO RSU Plan is 492,327,394 Shares, all of which have been issued and held by SenseTalent. Immediately following the completion of the Global Offering, all the Shares held by SenseTalent were converted into Class B Shares. As such, the aggregate number of the Class B Shares underlying the Pre-IPO RSU Plan is 492,327,394, representing approximately 1.48% of the issued share capital of the Company as at December 31, 2021.

Pre-IPO ESOP

The following is a summary of the principal terms of the Pre-IPO ESOP of the Company as approved by the Board on November 1, 2016 and amended from time to time. The terms of the Pre-IPO ESOP are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO ESOP will not involve the grant of options by the Company to subscribe for new Shares. For details regarding the Pre-IPO ESOP, please refer to the section headed "Statutory and General Information – D. Share Incentive Schemes – 2. Pre-IPO ESOP" of the Prospectus.

Purpose

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

Effectiveness and Duration

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

Administration

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

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

Participants

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

Maximum Number of Shares

Subject to any adjustments for other dilutive issuances, the maximum number of Shares underlying the Options under the Pre-IPO ESOP ("Pre-IPO ESOP Limit") is 3,376,931,209 Class B Shares, all of which have been issued and held by SenseTalent.

Terms and Conditions of Options

Grant of Options

The ESOP Administrators may determine in each year whether Options shall be granted and select the Pre-IPO ESOP Participants to whom a grant of an Option may be made. The number of Options granted may be determined at the sole and absolute discretion of the ESOP Administrators and may differ among selected Pre-IPO ESOP Participants.

Rights attached to the Options and the underlying Shares

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

Limits on Transfer of Options

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

Vesting Schedule

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

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

Exercise of Options

Exercise Price

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

Validity Period

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

Exercise Method

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

Alteration and Termination of the Pre-IPO ESOP

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

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

Options granted under the Pre-IPO ESOP

As at December 31, 2021, the Company had granted options under the Pre-IPO ESOP to 1,454 grantees (including Directors, members of senior management and other connected persons of the Company) to subscribe for an aggregate of 2,780,753,938 Shares.

The maximum number of Shares underlying the Pre-IPO ESOP is 3,376,931,209 Shares, all of which have been issued and held by SenseTalent. Immediately following the completion of the Global Offering, all the Shares held by SenseTalent were converted into Class B Shares. As such, the aggregate number of Shares underlying the Pre-IPO ESOP is 3,376,931,209, representing approximately 10.15% of the issued share capital of the Company as at December 31, 2021.

Equity-Linked Agreements

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

DIRECTORS AND SENIOR MANAGEMENT

The Directors as at the Latest Practicable Date are:

Executive Directors
Dr. XU Li (徐立) *(Executive Chairman of the Board)*
Prof. TANG Xiao'ou (湯曉鷗)
Dr. WANG Xiaogang (王曉剛)
Mr. XU Bing (徐冰)

Non-executive Director
Ms. FAN Yuanyuan (范瑗瑗)

Independent non-executive Directors
Prof. XUE Lan (薛瀾)
Mr. LYN Frank Yee Chon (林怡仲)
Mr. LI Wei (厲偉)

Confirmation of Independence of Independent Non-Executive Director

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

Biographical Details of Directors

Executive Directors

Dr. Xu Li (徐立), aged 40, is our co-founder, executive Chairman of our Board, executive Director and chief executive officer. He was appointed as a Director on December 15, 2015 and re-designated as an executive Director on August 23, 2021. He is primarily responsible for our Group's vision strategy, business development and daily operations. He has been an adjunct professor at Shanghai Jiao Tong University since December 2018.

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

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

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

Prof. Tang Xiao'ou (湯曉鷗), aged 54, is our founder and was appointed as our executive Director on August 23, 2021. He is primarily responsible for designing the Group's research and innovation strategies and driving research partnerships with leading universities and academic institutions.

Prof. Tang Xiao'ou has been a professor at the Department of Information Engineering at the Chinese University of Hong Kong since January 1998, and an associate director of the Shenzhen Institute of Advanced Technology of the Chinese Academy of Science (中國科學院深圳先進技術研究院) since January 2009. He has also been a director of HKAI Lab since May 2018, and the head of the Shanghai Artificial Intelligence Innovation Center (上海人工智能創新中心) since August 2020. He was a board member of Khazanah Nasional Berhad from June 2019 to April 2020 and Hong Kong Science and Technology Parks Corporation from July 2018 to March 2021.

Prof. Tang Xiao'ou has been a fellow at the IEEE since 2009. He was the Editor-in-Chief of IJCV (a leading journal on computer vision) and a general chair of the ICCV (a leading conference on computer vision). Prof. Tang Xiao'ou was ranked as Asia's top five computer scientists by Guide2Research in 2020. He established the Multimedia Lab (MMLab) of the Chinese University of Hong Kong in 2001. He received the Best Paper Award at CVPR in 2009, which was the first one ever from Asia.

Prof. Tang Xiao'ou obtained a Bachelor of Science degree from the University of Science and Technology of China in July 1990, and a Master of Science degree from the University of Rochester in October 1991. He further received a Ph.D. degree from the Massachusetts Institute of Technology in June 1996.

Dr. Wang Xiaogang (王曉剛), aged 44, is our co-founder, executive Director and chief scientist. He was appointed as a Director on October 10, 2016 and re-designated as an executive Director on August 23, 2021. He is primarily responsible for overseeing and supervising our Group's research team. He joined the Department of Electronic Engineering at the Chinese University of Hong Kong as an assistant professor in August 2009 and has been a professor since August 2020. He has been the Chairman of China Augmented Reality Core Technology Industry Alliance (中國增強現實核心技術產業聯盟) since June 2019.

Dr. Wang Xiaogang has published numerous papers at major conferences and journals and his publications have received over 65,000 citations according to Google Scholar, with H-Index of 120. He was awarded the honorable mention of PAMI Young Researcher Award by the IEEE Computer Society in 2016, and the Hong Kong RGC Early Career Award in 2012. He was the area chair of various international conferences between 2011 and 2017, including the CVPR, ICCV and ECCV.

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

Mr. Xu Bing (徐冰), aged 32, is our co-founder, executive Director and Board secretary. He was appointed as a Director on December 15, 2015 and re-designated as an executive Director on August 23, 2021. He is primarily responsible for our Group's corporate development strategies and overseeing fundraising and strategic investments.

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

Non-executive Director

Ms. Fan Yuanyuan (范瑗瑗), aged 47, was appointed as a Director on January 25, 2017 and re-designated as a non-executive Director on August 23, 2021. She is primarily responsible for providing advice to the overall development of our Group.

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

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

Independent non-executive Directors

Prof. Xue Lan (薛瀾), aged 62, was appointed as our independent non-executive Director on December 7, 2021. He is primarily responsible for offering independent advice to our Board on the operations and management of our Group.

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

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

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

Mr. Lyn Frank Yee Chon (林怡仲), aged 63, was appointed as our independent non-executive Director on December 7, 2021. He is primarily responsible for offering independent advice to our Board on the operations and management of our Group.

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

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

Mr. Li Wei (厲偉), aged 58, was appointed as our independent non-executive Director on December 7, 2021. He is primarily responsible for offering independent advice to our Board on the operations and management of our Group.

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

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

Biographical Details of Senior Management

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

Prof. Tang Xiao'ou (湯曉鷗), is our founder and executive Director. Please refer to the section headed "Biographical Details of Directors" for further details.

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

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

Mr. Wang Zheng (王征), aged 45, has been our chief financial officer since May 2019. He is primarily responsible for overall financial planning and management of our Group.

Prior to joining our Group, Mr. Wang worked at Silver Lake from May 2008 to December 2018, with his last position as managing director and head of Greater China, primarily responsible for sourcing and executing private equity investments in the technology and technology-enabled industries. He worked at General Atlantic from May 2005 to April 2008, with his last position as vice president focusing on technology, media and telecom (TMT) and healthcare related private equity investments in North Asia. During his tenure with Silver Lake and General Atlantic, Mr. Wang had served as board director or board observer at several investee companies. Earlier in his career, Mr. Wang was a senior business analyst at corporate finance practice at McKinsey & Company from October 2003 to May 2005. He served as financial analyst at Morgan Stanley from November 2002 to August 2003 and at Credit Suisse First Boston from July 2001 to October 2002.

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

Mr. Yang Fan (楊帆), aged 39, is our co-founder and has been our vice president since November 2014. He is primarily responsible for strategic planning and corporate development of our Group.

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

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

Directors' Service Contracts and Appointment Letters

Executive Directors

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

Non-executive Director

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

Independent Non-executive Directors

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

Save as disclosed above, none of the Directors has a service contract with any member of the Group not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Details of the emoluments of the Directors during the year ended December 31, 2021 are set out in Note 41 to the consolidated financial statements in this annual report.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in this annual report, none of the Directors or an entity connected with a Director was materially interested, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the Group's business subsisting at the end of the year or at any time during the year, and to which the Company or any subsidiary was a party.

Directors' Rights to Acquire Shares or Debentures

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

Directors' Interests in Competing Business

As at December 31, 2021, (i) Dr. Wang Xiaogang held 14.45% of equity interests in Chengdu Xinzhouruishi Technology Co., Ltd (成都新舟鋭視科技有限公司) ("Chengdu Xinzhouruishi"), a company established in the PRC with intelligent visual processing technology specializing in research and development, production and sales of intelligent security products. Beijing SenseTime Technology Development Co., Ltd. (北京市商湯科技開發有限公司), an indirect wholly-owned subsidiary of the Company, has also invested in Chengdu Xinzhouruishi and holds 13.50% of its equity interests; and (ii) Mr. Xu Bing is a director of two companies that the Company has invested in. Mr. Xu Bing's role as a director in these two investees was appointed by the Company.

Save as disclosed in this annual report, during the year ended December 31, 2021, none of the Directors had any interest in any business which competes, or is likely to compete, directly or indirectly, with the Company's business, and requires disclosure under Rule 8.10(2) of the Listing Rules.

Permitted Indemnity Provision

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

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

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

As at December 31, 2021, the interests or short positions of the Directors and the chief executive in any Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which have been taken or deemed to have been taken under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Interests in Shares of the Company

Name	Nature of interest[1]	Number and class of shares held	Approximate percentage of shareholding of the relevant class of shares in our Company[2]	Approximate percentage of shareholding in the issued and outstanding share capital of our Company[2]
Class A Shares – Prof. Tang Xiao'ou				
Amind[3]	Beneficial interest	6,906,080,602 Class A Shares	91.73%	20.75%
Prof. Tang Xiao'ou	Interest in a controlled corporation	6,906,080,602 Class A Shares	91.73%	20.75%
Class A Shares – Dr. Xu Li				
XWorld[4]	Beneficial interest	286,317,668 Class A Shares	3.80%	0.86%
Dr. Xu Li	Interest in a controlled corporation	286,317,668 Class A Shares	3.80%	0.86%
Class A Shares – Dr. Wang Xiaogang				
Infinity Vision[5]	Beneficial interest	232,171,633 Class A Shares	3.08%	0.70%
Dr. Wang Xiaogang	Interest in a controlled corporation	232,171,633 Class A Shares	3.08%	0.70%
Class A Shares – Mr. Xu Bing				
Vision Worldwide[6]	Beneficial interest	104,190,097 Class A Shares	1.38%	0.31%
Mr. Xu Bing	Interest in a controlled corporation	104,190,097 Class A Shares	1.38%	0.31%

Name	Nature of interest[1]	Number and class of shares held	Approximate percentage of shareholding of the relevant class of shares in our Company[2]	Approximate percentage of shareholding in the issued and outstanding share capital of our Company[2]
Class B Shares – Prof. Tang Xiao'ou				
SenseSmart[7]	Beneficial interest	206,660,000 Class B Shares	0.80%	0.62%
SenseVision[7]	Beneficial interest	690,440,000 Class B Shares	2.68%	2.07%
SenseForest[7]	Beneficial interest	269,850,000 Class B Shares	1.05%	0.81%
SenseLight[7]	Beneficial interest	239,150,000 Class B Shares	0.93%	0.72%
SensePoint[7]	Beneficial interest	283,420,000 Class B Shares	1.10%	0.85%
SenseSpace[7]	Beneficial interest	191,890,000 Class B Shares	0.75%	0.58%
SenseBlue[7]	Beneficial interest	10,410,000 Class B Shares	0.04%	0.03%
SenseFancy[7]	Interest in a controlled corporation	1,891,820,000 Class B Shares	7.35%	5.68%
Amind Holding Inc.[7]	Interest in a controlled corporation	1,891,820,000 Class B Shares	7.35%	5.68%
Amind[7]	Interest in a controlled corporation	1,891,820,000 Class B Shares	7.35%	5.68%
Prof. Tang Xiao'ou	Interest in a controlled corporation	1,891,820,000 Class B Shares	7.35%	5.68%
Class B Shares – Dr. Xu Li				
Dr. Xu Li through SenseTalent[8]	Beneficial interest	565,386,529 Class B Shares	2.20%	1.70%
Class B Shares – Dr. Wang Xiaogang				
Dr. Wang Xiaogang through SenseTalent[8]	Beneficial interest	302,140,243 Class B Shares	1.17%	0.91%
Class B Shares – Mr. Xu Bing				
Mr. Xu Bing through SenseTalent[8]	Beneficial interest	252,236,581 Class B Shares	0.98%	0.76%

Notes:

(1) All interests stated are long position.

(2) The calculations are based on the number of Shares in issue as at December 31, 2021. As at December 31, 2021, 7,528,760,000 Class A Shares and 25,753,640,000 Class B Shares were in issue.

(3) The entire interest in Amind is held by Prof. Tang Xiao'ou.

(4) The entire interest in XWorld is held by Dr. Xu Li.

(5) The entire interest in Infinity Vision is held by Dr. Wang Xiaogang.

(6) The entire interest in Vision Worldwide is held by Mr. Xu Bing.

(7) The general partner of each of SenseSmart, SenseVision, SenseForest, SenseLight, SensePoint, SenseSpace and SenseBlue is SenseFancy, the entire interest of which is held by Amind Holding Inc. which is in turn owned by Amind. The limited partners of each of SenseSmart, SenseVision, SenseForest, SenseLight, SensePoint, SenseSpace and SenseBlue are Independent Third Parties.

(8) The interests comprise underlying Class B Shares in respect of the options granted pursuant to the Pre-IPO ESOP.

Save as disclosed above, as at December 31, 2021, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or are required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

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

As at December 31, 2021, other than the Directors and the chief executive, the following persons had interests and/or short positions (as applicable) in the Shares or underlying shares of the Company that fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Interests in Shares of the Company

Name	Nature of interest[(1)]	Number and class of shares held	Approximate percentage of shareholding of the relevant class of shares in our Company[(2)]	Approximate percentage of shareholding in the issued and outstanding share capital of our Company[(2)]
SenseTalent[(3)]	Beneficial interest	3,869,258,603 Class B Shares	15.02%	11.63%
Ms. Lin Jiemin[(3)]	Interest in a controlled corporation	3,869,258,603 Class B Shares	15.02%	11.63%
Softbank				
SVF Sense (Singapore) Pte. Ltd.[(4)]	Beneficial interest	4,730,521,397 Class B Shares	18.37%	14.21%
SVF Holdings (UK) LLP[(4)]	Interest in a controlled corporation	4,730,521,397 Class B Shares	18.37%	14.21%
SoftBank Vision Fund L.P.[(4)]	Interest in a controlled corporation	4,730,521,397 Class B Shares	18.37%	14.21%
Public Investment Fund[(4)]	Interest in a controlled corporation	4,730,521,397 Class B Shares	18.37%	14.21%
Vision Technology Investment Company[(4)]	Interest in a controlled corporation	4,730,521,397 Class B Shares	18.37%	14.21%
SB Investment Advisers (UK) Limited[(4)]	Interest in a controlled corporation	4,730,521,397 Class B Shares	18.37%	14.21%
SVF GP (Jersey) Limited[(4)]	Interest in a controlled corporation	4,730,521,397 Class B Shares	18.37%	14.21%
SoftBank Group Corp.[(4)]	Interest in a controlled corporation	4,730,521,397 Class B Shares	18.37%	14.21%

Name	Nature of interest[1]	Number and class of shares held	Approximate percentage of shareholding of the relevant class of shares in our Company[2]	Approximate percentage of shareholding in the issued and outstanding share capital of our Company[2]
Alibaba				
Taobao China Holding Limited[5]	Beneficial interest	2,411,030,000 Class B Shares	9.36%	7.24%
Taobao Holding Limited[5]	Interest in a controlled corporation	2,411,030,000 Class B Shares	9.36%	7.24%
Alibaba Group Holding Limited[5]	Interest in a controlled corporation	2,411,030,000 Class B Shares	9.36%	7.24%
Amind				
SenseFancy[6]	Interest in a controlled corporation	1,891,820,000 Class B Shares	7.35%	5.68%
Amind Holding Inc.[6]	Interest in a controlled corporation	1,891,820,000 Class B Shares	7.35%	5.68%
Amind[6]	Interest in a controlled corporation	1,891,820,000 Class B Shares	7.35%	5.68%

Notes:

(1) All interests stated are long position.

(2) The calculations are based on the number of Shares in issue as at December 31, 2021. As at December 31, 2021, 7,528,760,000 Class A Shares and 25,753,640,000 Class B Shares were in issue.

(3) As Ms. Lin Jiemin holds 71.06% interests in SenseTalent, Ms. Lin Jiemin is deemed to be interested in the 3,869,258,603 Class B Shares held by SenseTalent.

(4) SVF Sense (Singapore) Pte. Ltd. is indirectly wholly owned by SVF Holdings (UK) LLP. SoftBank Vision Fund L.P. is the managing member of SVF Holdings (UK) LLP. The general partner of SoftBank Vision Fund L.P. is SVF GP (Jersey) Limited, which is ultimately wholly owned by SoftBank Group Corp. (TYO: 9984). SVF GP (Jersey) Limited appointed SB Investment Advisers (UK) Limited, ultimately wholly owned by SoftBank Group Corp. (TYO: 9984), as the manager of SoftBank Vision Fund L.P.. SB Investment Advisers (UK) Limited is exclusively responsible for making all decisions related to the acquisition, structuring, financing, voting, and disposal of investments held by SoftBank Vision Fund L.P.

(5) Taobao China Holding Limited is a wholly-owned subsidiary of Taobao Holding Limited, which is in turn a wholly-owned subsidiary of Alibaba Group Holding Limited, whose American depositary shares are listed on the New York Stock Exchange (stock symbol: BABA) and ordinary shares are listed on the Main Board of the Stock Exchange (stock code: 9988).

(6) Please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying shares and Debentures of the Company or any Associated Corporations" for details of the shareholdings of SenseFancy, Amind Holdings Inc. and Amind.

Save as disclosed above, as at December 31, 2021, no other person (other than the Directors and chief executives of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CONNECTED TRANSACTIONS

Distributorship Agreement with JCV

Principal Terms

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

JCV is a wholly-owned subsidiary of SoftBank Corp., a 30%-controlled company of SoftBank Group Corp. which is in turn the holding company of SVF Sense (Singapore) Pte. Ltd. As disclosed in the section headed "Substantial Shareholders", SVF Sense (Singapore) Pte. Ltd. is a substantial Shareholder and hence a connected person of the Company. As such, JCV is also a connected person of the Company.

Basis of Consideration

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

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

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

Annual Caps

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

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

For the year ended December 31, 2021, the actual transaction amount paid/payable by JCV to SenseTime HK pursuant to the Distributorship Agreement was RMB77.5 million.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the above continuing connected transaction, and confirmed that such continuing connected transaction had been entered into:

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

(ii) on normal commercial terms or better; and

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

Confirmation from the Auditor

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

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transaction during the Reporting Period:

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

(ii) nothing has come to its attention that causes it to believe that the transaction was not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to its attention that causes it to believe that the transaction was not entered into, in all material respects, in accordance with the relevant agreement governing the transaction; or

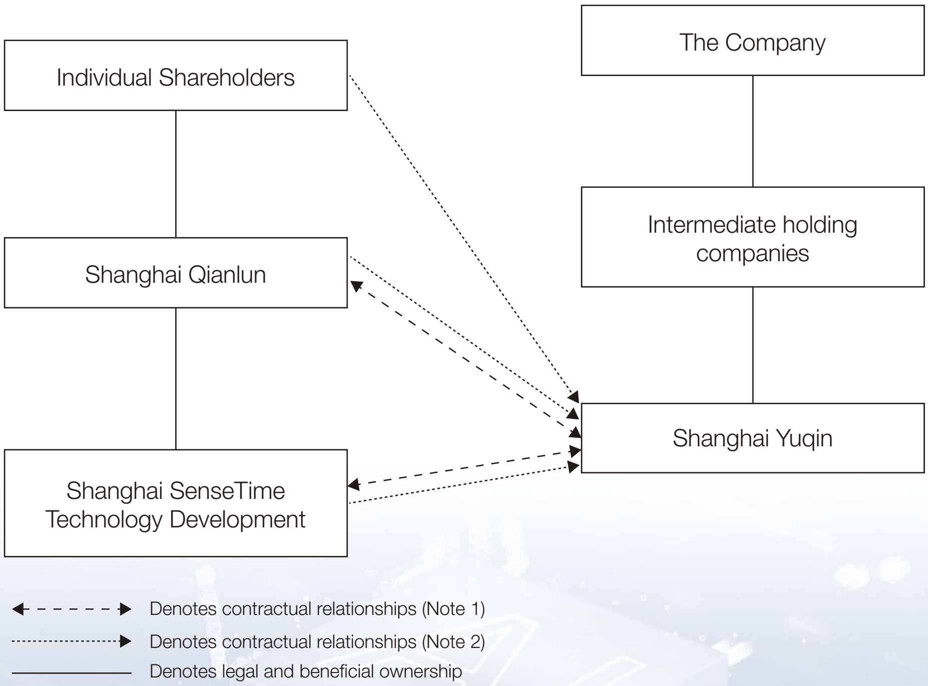
(iv) nothing has come to its attention that causes it to believe that the transaction has exceeded the cap.

Contractual Arrangement

The Company control the Consolidated Affiliated Entities through a series of contractual arrangement, pursuant to which the Company has effective control over, and receive all the economic benefits generated by the businesses currently operated by the Consolidated Affiliated Entities.

The Consolidated Affiliated Entities, being Shanghai Qianlun and Shanghai SenseTime Technology Development, were set up in 2020. As at December 31, 2021, Shanghai SenseTime Technology Development was wholly-owned by Shanghai Qianlun, which was held by Mr. Yang Fan and Mr. Ma Kun as to 50% each. Mr. Yang Fan and Mr. Ma Kun are collectively referred to as the "Individual Shareholders."

The following simplified diagram illustrates the Contractual Arrangement that was in place as at December 31, 2021:



Notes:

(1) Shanghai Yuqin provides business support, technical and consulting services in exchange for service fees from Shanghai Qianlun and Shanghai SenseTime Technology Development respectively. See "Exclusive Business Cooperation Agreement" below.

(2) The Individual Shareholders executed exclusive options agreement in favor of Shanghai Yuqin, to acquire all or part of the equity interests in and all or part of the assets in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See "Exclusive Options Agreement" below.

The Individual Shareholders executed powers of attorney in favor of Shanghai Yuqin, to exercise all shareholders' rights in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See "Powers of Attorney" below.

The Individual Shareholders granted first priority security interests in favor of Shanghai Yuqin, over the entire equity interests in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See "Equity Pledge Agreement" below.

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

For the year ended December 31, 2021, the total revenue of the Consolidated Affiliated Entities amounted to RMB33.8 million, representing 0.7% of the total revenue of the Group. As at December 31, 2021, the total assets of the Consolidated Affiliated Entities amounted to RMB2,022.7 million, representing 5.5% of the total assets of the Group.

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

Summary of Agreements under the Contractual Arrangement

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

Exclusive Business Cooperation Agreement

As part of the Contractual Arrangement, the Consolidated Affiliated Entities and the VIE WFOE have entered into exclusive business cooperation agreement. Pursuant to the exclusive business cooperation agreement, the Consolidated Affiliated Entities agreed to engage the VIE WFOE as its exclusive provider of business support, technical and consult services, including but not limited to, technical services, network support, business consultation, licensing of intellectual properties, system integration, product research and development, system maintenance and management consultancy services. In exchange for these services, the Consolidated Affiliated Entities shall pay a service fee, which equal to its profit before tax, deducting any of its accumulated losses from the preceding fiscal year, costs, expenses, tax and other statutory contribution in relation to the respective fiscal year, which will be wired to the designated account of the VIE WFOE upon issuance of payment notification by the VIE WFOE. The VIE WFOE enjoys all the economic benefits derived from the businesses of the Consolidated Affiliated Entities and bears the relevant portion of the business risks of the Consolidated Affiliated Entities. If the Consolidated Affiliated Entities run into financial deficit or suffer severe operation difficulties, the VIE WFOE will provide financial support to the Consolidated Affiliated Entities.

Exclusive Options Agreement

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

Powers of Attorney

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

Equity Pledge Agreement

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

Reasons for Adopting the Contractual Arrangement

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

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

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

Risks associated with the Contractual Arrangement

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

(1) If the PRC government deems the Contractual Arrangement does not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, the Company could be subject to severe penalties or be forced to relinquish its interests in those operations.

(2) Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law and how it may impact the viability of the current corporate structure, corporate governance and business operations of the Company.

(3) Any failure by the Consolidated Affiliated Entities or its shareholders to perform their obligations under our contractual arrangement with them would have a material and adverse effect on the Company's business.

(4) The Company rely on contractual arrangement with the Consolidated Affiliated Entities and its shareholders to exercise control over its business, which may not be as effective as direct ownership in providing operational control.

(5) If the Company exercises the option to acquire equity ownership and assets of any of the Consolidated Affiliated Entities, the ownership transfer may subject the Company to certain limitations and substantial costs.

(6) The contractual arrangement with the Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that the Company or the Consolidated Affiliated Entities owe additional taxes, which could negatively affect the Company's financial condition and the value of the Shareholders' investment.

(7) The Company may lose the ability to use and benefit from assets held by the Consolidated Affiliated Entities and their subsidiaries that are material to the operation of the Company's business if the entities go bankrupt or become subject to a dissolution or liquidation proceeding.

Actions by the Company to Mitigate the Associated Risks

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

(1) major issues arising from the implementation and compliance with the Contractual Arrangement or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(2) the Board will review the overall performance of and compliance with the Contractual Arrangement at least once a year;

(3) the Company will disclose the overall performance and compliance with the Contractual Arrangement in its annual reports; and

(4) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangement, review the legal compliance of the VIE WFOE and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangement.

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

(1) the Group has established an overseas website and registered patents, trademarks and domain names outside of the PRC for the promotion of its businesses overseas; and

(2) the Company has incorporated a number of overseas entities for the purpose of expanding its business overseas.

Listing Rules Implications and Waivers from the Stock Exchange

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

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

(1) No change to the Contractual Arrangement (including with respect to any fees payable to VIE WFOE) will be made without the approval of our independent non-executive Directors.

(2) Save as described in paragraph (4) below, no change to the agreements governing the Contractual Arrangement will be made without our independent Shareholders' approval.

(3) The Contractual Arrangement shall continue to enable the Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) the Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests and assets for nil consideration or the minimum amount of consideration as permitted by applicable PRC laws, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to VIE WFOE by the Consolidated Affiliated Entities under the exclusive business cooperation agreements, and (iii) the Group's right to control the management and operation of, as well as, in substance, the controlling voting rights of the Consolidated Affiliated Entities.

(4) On the basis that the Contractual Arrangement provides an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced (i) upon the expiry of the existing arrangements or (ii) in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies), engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangement.

(5) The Company will disclose details relating to the Contractual Arrangement on an on-going basis in specified manners.

Confirmation from Independent Non-executive Directors

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

(i) the transactions carried out have been entered into in accordance with the relevant provisions of the Contractual Arrangement;

(ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

(iii) any new contracts entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities are fair and reasonable, or advantageous to the Shareholders, as far as the Group is concerned and in the interests of the Shareholders as a whole.

Confirmation from the Auditor

The Auditor has reviewed the transactions carried out pursuant to the Contractual Arrangement, and has confirmed in a letter to the Board (with a copy to the Stock Exchange) that, with respect to the Contractual Arrangement during the Reporting Period:

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

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

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

The Group entered into certain transactions with "related parties" as defined under applicable accounting standards during the financial year ended December 31, 2021 which were disclosed in Note 40 to the consolidated financial statements. Save for the transactions with SoftBank Corp. and Prof. Tang, and the transactions involving payment of remuneration to certain directors of the Group which constitute connected transactions fully exempt from the connected transaction requirements under Rule 14A.76(1) or Rule 14A.95 of the Listing Rules, and the continuing connected transactions as disclosed above, no related party transactions disclosed in the consolidated financial statements constitutes a connected transaction as defined under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, during the year ended December 31, 2021, the Company had no connected transactions or continuing connected transactions which are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended December 31, 2021.

AUDITOR AND AUDIT COMMITTEE

Auditor

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

Audit Committee

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

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

The Audit Committee, after the discussion with the Auditor, has reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2021. The Audit Committee has discussed matters in relation to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company and the Auditor. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

EVENTS AFTER THE REPORTING PERIOD

Save for the subsequent events as described in Note 43 to the consolidated financial statements, there have been no other significant events that might affect the Group since the end of the Reporting Period and up to the Latest Practicable Date.

On behalf of the Board

Xu Li
Executive Chairman
Chief Executive Officer

Hong Kong, April 29, 2022

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Report Description

This Environmental, Social and Governance Report is the first ESG report issued by the Company, which aims to systematically demonstrate our concepts, practices and achievements in social and environmental sustainable development in 2021.

Reporting Scope

This ESG Report covers the main business of the Group. This report covers the period from January 1, 2021 to December 31, 2021 (the "Reporting Period"), with some content dating back to previous years or extending to future years.

References

This ESG Report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* set out in Appendix 27 to the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* issued by The Stock Exchange of Hong Kong Limited.

Reporting Principles

"Materiality": This ESG Report has incorporated the stakeholder communication and materiality assessment process as the basis for determining material ESG issues.

"Quantitative": This report uses quantitative information to present the key performance indicators ("KPIs") in environmental and social aspects, with explanations to illustrate their purposes and impacts.

"Balance": This ESG Report adheres to the principle of balance and provides an unbiased picture of our ESG performance.

"Consistency": This ESG Report is the first ESG report of the Company. We will adopt consistent statistical methods in subsequent years for meaningful comparison in the future.

Board Statement

The Board and all Directors of the Company warrant that there are no false records, misleading statements or material omissions in this report, and make the following statements on the ESG supervision and management of the Board:

The Board oversees the Group's ESG issues and is the highest responsible body for the Group's ESG management. In accordance with the requirements of the *Environmental, Social and Governance Reporting Guide*, we have established the Group's ESG governance structure, reviewed the implementation of ESG-related goals, and established an ESG risk management and internal control system. For details of the governance structure, please refer to the section headed "ESG Governance Structure" in this report. At the same time, the Board has reviewed the Company's assessment, priority and management of ESG issues. For details, please refer to the sections headed "Communication with Stakeholders" and "Materiality Assessment".

RESPONSIBLE GOVERNANCE FOR SUSTAINABLE DEVELOPMENT

SenseTime is committed to "being a leading AI enterprise with responsibility", and has transformed this ESG concept into specific action goals, striving to create more value for all stakeholders and the society. We have integrated the concept of sustainable development into relevant operational levels and attach importance to communication with various stakeholders to achieve coordinated development in the three dimensions of environment, economy and society.

ESG Governance Structure

In accordance with the *Company Law of the People's Republic of China*, the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* and other laws, regulations and institutional requirements, we will gradually build a scientific and systematic ESG governance structure in the future, and strive to maintain the highest level of corporate governance.

We have clearly designated the Board of the Company as the highest responsible body for the Company's ESG strategy and management. We have established a Corporate Social Responsibility ("CSR") Department with CSR Project Management Center and Carbon Neutral Development Research Center. The CSR Project Management Center is responsible for the major works related to corporate social responsibility, timely understanding the emergency response and feedback of social urgent needs, and conducting overall planning and implementation of corporate social responsibility work. The Carbon Neutral Development Research Center is responsible for the carbon neutrality and carbon peak ("dual-carbon") works in relation to the enterprise, including the top-level design of the Group's carbon neutrality strategy, roadmap formulation, indicator quantification and resource planning, as well as the systematic planning of dual carbon solutions based on the Company's existing technology and market innovation needs to promote product research and development; and through the pilot/implementation of dual-carbon related projects, gradually realize the comprehensive management of the Group's carbon neutrality task and production line planning.

Communication with Stakeholders

The Company's key stakeholders include shareholders and investors, government and regulatory authorities, media and non-governmental organizations, suppliers, partners, users, employees and the community. We attach great importance to communication with stakeholders, understand their expectations and requirements on ESG through various effective channels as an important reference for the Company to formulate its ESG strategies.

Stakeholders	Issues of concern	Communication methods
Shareholders and investors	Return on investment Compliance operation Risk control Product service and quality	General meeting Regular reports and announcements Investor mail and meeting communication
Government and regulatory authorities	Compliance operation Information security Data and privacy protection AI ethics and governance	Information disclosure Daily communication and reporting Regulatory inspection Visits reception
Media and NGOs	Product and service quality Promote industry development Social responsibility	Social media Official website Press conference Communication at meetings
Suppliers	Operation with integrity Corporate social responsibility Mutual benefit and win-win Supplier empowerment	Project procurement Contracts and agreements Invitation for tender Supplier management conference
Partners	Technological innovation Cooperation development Product and service quality Social responsibility	Corporate forum Partners summit Project cooperation Technical exchanges
Users	Improving user experience Product and service quality Information security Data and privacy protection	Official website User feedback channels Product research feedback Social media
Employees	Employee rights protection Occupational health and safety Employee benefits Equal opportunities and diversity	Internal meetings Management committee Staff training Social media
Community and the public	Public welfare and charity Community engagement Environmental protection	Community activities Company website Social media

Materiality Assessment

During the Reporting Period, the Company conducted a materiality assessment to determine the importance of each ESG issue to the Company's business development and to various stakeholders, and used the assessment results as an important reference for formulating ESG management strategies and preparing ESG reports. The specific process is as follows:

Step 1 Identify ESG Issues

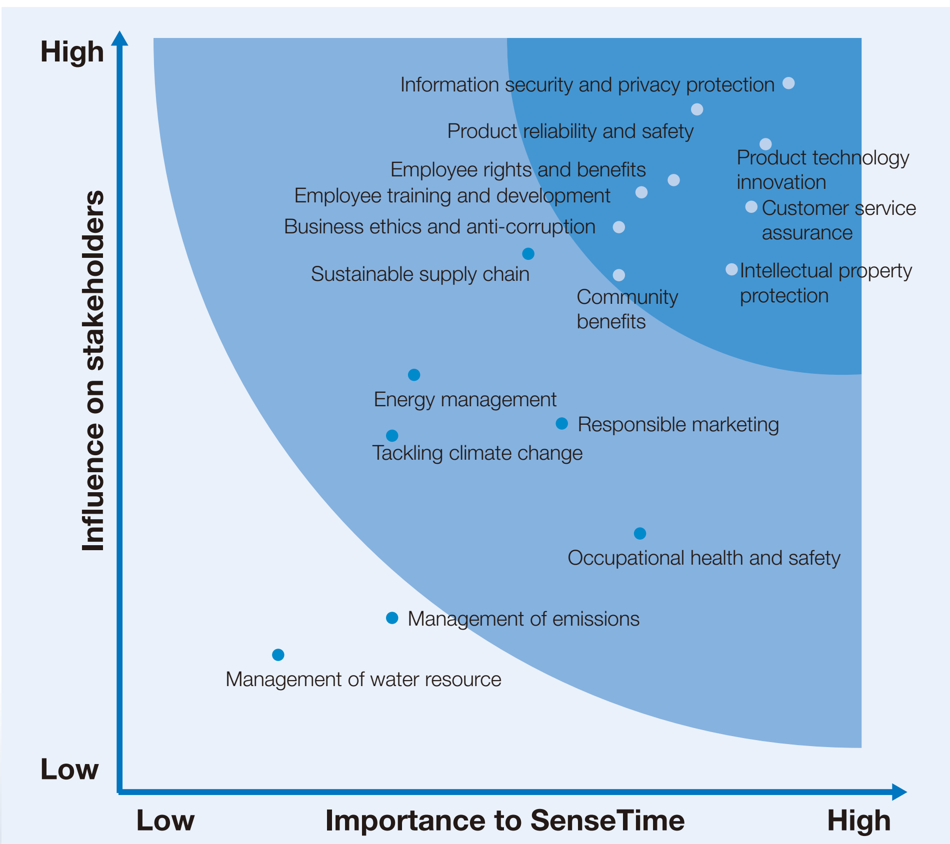
In accordance with the requirements of the *Environmental, Social and Governance Reporting Guide* and taking into account the Company's actual business and industry characteristics, we analyzed and identified 16 ESG-related issues through a series of methods as the basis for materiality assessment.

Step 2 Validation of Materiality

Through internal interviews and discussions, and consulting with external experts, the Company evaluated each issue from two aspects, namely "importance to SenseTime" and "influence on stakeholders", and generated a materiality assessment matrix based on the results of the survey.

Step 3 Validation of Assessment Results

The ESG working group of the Company reviews and confirms the assessment results. Based on the assessment results, the Company identified 8 issues that are extremely important to the Company, including information security and privacy protection, product reliability and safety, product technology innovation, employee rights and benefits, employee training and development, customer service assurance, intellectual property protection, and community public welfare. We will respond to key issues in the corresponding sections of the report in a targeted manner to meet the concerns of various stakeholders.



Matrix of material issues of SenseTime

Implementing Business Ethics

As a multinational technology enterprise, SenseTime attaches great importance to the establishment, improvement and effective operation of the integrity and compliance system, and always regards integrity and compliance as the cornerstone of our sustainable development and the premise of various business activities. We have formulated a series of policies and systems such as the *Anti-Fraud Management Policy of SenseTime Group*, the *Compliance Policy of SenseTime Group on Anti-Money Laundering Law*, the *Regulations on Employee Supervision of SenseTime Group (Trial)* and the *Measures for Compliance Inspection* based on domestic and foreign anti-money laundering, anti-fraud and anti-unfair competition laws and regulations (including the PRC and Hong Kong), regulatory requirements and International treaties, to regulate the compliance work of all employees and business lines to perform their duties.

The Group issues the *Undertaking to Avoid Conflicts of Interest* to employees every year and requires all employees to sign it. In addition, during the Reporting Period, we also launched the signature campaign of the *Employee Supervision Regulations of SenseTime Group (Trial)* for all employees, and revised the terms of anti-commercial bribery contracts to further ensure that employees and partners are practicing business ethics in the course of business operations.

We attach great importance to the formulation of corporate integrity culture, regularly carry out business ethics training and awareness publicity for directors and employees at all levels, and actively establish a good atmosphere of compliance, integrity and self-discipline. During the Reporting Period, we conducted anti-fraud red line training for all employees and compliance training for all Directors and senior management; the Group also issues a *Compliance Dynamic Express Newsletter* every two weeks, which includes the latest legislative developments, regulatory developments, compliance incidents and compliance-related issues, and is committed to passing the values of integrity, honesty and self-discipline to every employee.

The Company has established the Compliance and Supervision Department to continuously carry out relevant supervision work in accordance with the *Regulations on Employee Supervision of SenseTime Group (Trial)* and the *Measures for Compliance Inspection*, investigate and deal with serious violations and fraud, further strengthen the fraud risk prevention and control mechanism, and resolutely oppose any form of dishonest behaviors. We have established an anti-fraud reporting and handling mechanism, and clarified the reporting channels and protection measures for whistleblowers in the *SenseTime Group Anti-fraud Management Policy*, the *SenseTime Group Employee Supervision Regulations (Trial)* and *Employee Handbook*. All employees and business partners can report violations of business ethics or related incidents through the reporting hotline and email. After the violation is substantiated through investigations, we will seriously handle, rectify and publicize the case. We keep all whistle-blowers and all information provided by them in strict confidential, and prohibit any illegal discrimination or retaliation against the whistle-blowers and the employees who assist in the investigation. During the Reporting Period, the Group did not have any corruption related lawsuits.

RESPONSIBLE OPERATION TO BUILD DIGITAL AND INTELLIGENT PRODUCTS AND SERVICES

As "the most valuable AI innovation enterprise in the world", SenseTime is committed to the mission of "to create a better AI-empowered future through innovation". With the vision of "to advance the interconnection of the physical and digital worlds with artificial intelligence, driving sustainable productivity growth and seamless interactive experiences", SenseTime aims to continuously lead the cutting-edge research of artificial intelligence, build a more expansive and more inclusive artificial intelligence software platform, and empower smart cities, smart business, smart life, smart auto, among others. We adhere to responsible operation, continuously strengthen information security management and intellectual property protection, and implement the AI ethics governance concept of balanced development. We are committed to improving the quality of products and services, and continuously safeguarding the legitimate rights and interests of all stakeholders and information security.

Technological Innovation and Intellectual Property

Technological innovation is the passcode and soul that leads the rapid development of an enterprise. SenseTime actively promotes basic research and application research and the transformation of scientific and technological achievements to achieve positive interaction and organic combination. We have profound academic foundation and have been investing in original technology research for a long time to continuously enhance our industry-leading full-stack artificial intelligence capabilities, covering key technology areas such as perception intelligence, decision intelligence, smart content generation and smart content enhancement, as well as key capabilities including AI chips, AI sensors and AI computing power infrastructure.

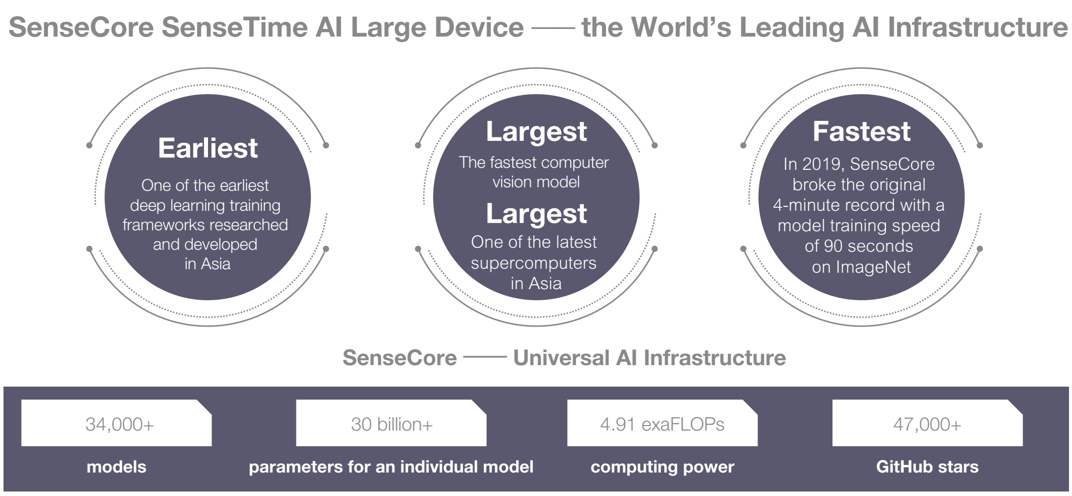
As of the end of the Reporting Period, we have published more than 700 papers in top academic conferences and journals, including more than 560 papers in CVPR (Conference on Computer Vision and Pattern Recognition), ICCV (International Conference on Computer Vision) and ECCV (European Conference on Computer Vision), the three most influential computer vision conferences in the world, and the paper with most citations has been cited for more than 6,200 times.

While investing a huge amount of resources in basic scientific research and innovation, we attach importance to and encourage technological innovation and invention and creation, promote the application of technological innovation achievements, establish a sound intellectual property management mechanism, and continuously strengthen the portfolio of intellectual property rights, especially high-value patents. We strictly abide by the *Copyright Law of the People's Republic of China*, the *Patent Law of the People's Republic of China*, the *Rules for the Administration of Internet Domain Names* and other relevant laws and regulations, and have formulated the *Intellectual Property Management Policy of SenseTime Group*, the *Guidelines for Patent Application of SenseTime Group*, the *Trademark Management Rules of SenseTime Group*, the *Copyright Management Rules of SenseTime Group* and other rules and regulations to clarify the management process of the Group's intellectual property rights such as patents, trademarks, copyrights, and domain names, set up a dedicated intellectual property team to be fully responsible for intellectual property management affairs. At the same time, we have built an intellectual property information management system to achieve the whole process management of each patent asset. In order to encourage employees to innovate and enhance their respect for innovation, we have formulated the *Management Rules for Patent Incentives and Remuneration of SenseTime Group* to clarify the patent-related incentive mechanism, and set up the "SenseTime Original Creation Award" during the Reporting Period to commend those who have made outstanding contributions to scientific and technological innovation. We have also embedded the identification and control of intellectual property risks into the product research and development process of the Company, formulated the *Guidelines for the Risk Management of Patent Infringement of Products of SenseTime Group*, set up a mechanism for identifying, monitoring and early warning of intellectual property infringement risks, set up a smooth complaint mechanism and user feedback channels, take necessary measures in accordance with the law to deal with infringing products or contents, timely discover and avoid potentially infringement risks, and ensure the freedom of the Company's product implementation.

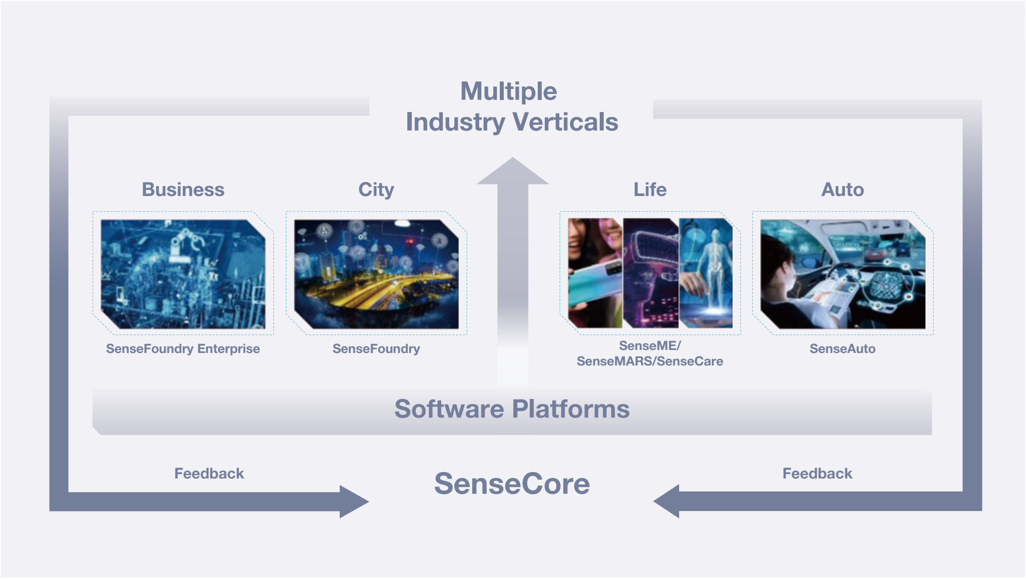
From the inception to the end of the Reporting Period, our patent applications have seen continuous multiplied increase over the years. During the Reporting Period, we have accumulated 774 trademark applications and 5,610 global patent applications, including 2,416 applications in China and 3,194 applications overseas. As at the end of the Reporting Period, we owned a broad patent asset portfolio of 11,494 pieces, including 5,653 domestic patent assets (including 4,390 invention patents) and 5,841 overseas patent assets. We have cumulatively obtained 2,020 global granted patents, including 1,487 in China and 533 overseas granted patents. Our overseas patent assets cover 22 countries and regions, mainly in East Asia, the United States and Southeast Asia. SenseTime has also applied for 1,267 PCT (*Patent Cooperation Treaty*) international patents. Meanwhile, we have 4,478 registered trademarks and trademark applications, 569 software copyright registrations, 66 copyright registration for works and 560 registered domain names.

Product Quality and Services

Relying on our solid scientific research foundation and high-quality patent assets, we are forward-looking to build a new artificial intelligence infrastructure "SenseCore SenseTime AI Large Device" to perforate computing power, algorithm and platform, greatly reduce the price of artificial intelligence production factors, achieve high-efficiency, low-cost and large-scale AI innovation and implementation, so as to open up a closed loop of commercial value, solve long-tail application problems, and promote artificial intelligence to enter the stage of industrialization development. As at the end of the Reporting Period, we have launched more than 34,000 business models for the society, covering four major areas, namely smart business, smart city, smart life and smart auto. The relevant products and solutions have been well received by customers and partners.



Based on SenseCore, we develop and provide customers with a standard software platform with flexible modularization flexibility, including the SenseFoundry Enterprise Platform for smart business, the SenseFoundry Platform for smart cities, the SenseME, SenseMARS and SenseCare Platform for smart life, and the SenseAuto Platform for smart auto. These platforms can seamlessly connect with customers' existing equipment or IT infrastructure. Through these platforms, we deploy many AI models on the edge or cloud.



We strictly abide by the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* and other relevant laws and regulations, and are committed to providing customers with the highest level of product and service quality. We have established a professional quality management team, and formulated product life cycle management processes and related quality management specifications such as the *SenseTime Group Product Safety Management Standards*, the *SenseTime Group Product Project Management Process*, the *SenseTime Group Product Release Process*, and the *SenseTime Group Product Suspension and Sales Process Policy* with reference to industry standards, so as to reduce the uncertainties brought by the early stage of product research and development from the perspective of process and quality system, standardize quality control points, and continuously optimize product quality.

We attach great importance to the quality management system and qualification construction, laying a good foundation for the high-quality research and development and delivery of products. As at the end of the Reporting Period, we have obtained important qualifications such as ISO9001 Quality Management System, ISO/IEC20000 IT Service Management System, CMMI Software Capability Maturity Model Integration Level 3, ITSS Information Technology Service Operation and Maintenance Compliance Standards, ISO/IEC 27701 Privacy Information Management System. In the field of smart vehicles, we have obtained ASPICE L2 level and ASIL-B level of functional safety certification.

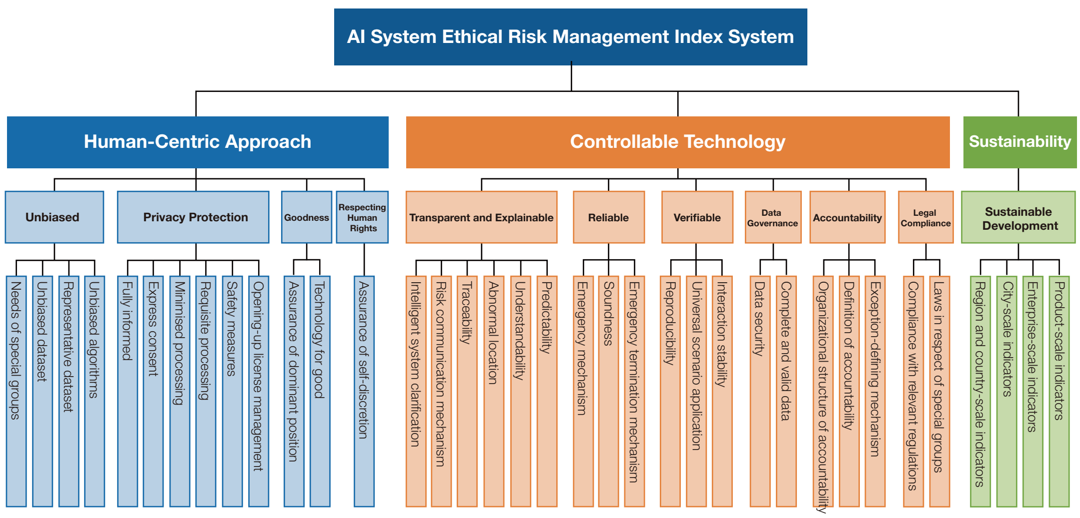
We have established a closed-loop management system from product inception to product release and sales suspension. We strictly review the products provided and the related sales, marketing and advertising strategies and materials, and provide a complete audit mechanism for ethics, safety, culture and compliance, as well as an online audit platform for product development. We strictly control the product materials to ensure that they meet the sustainable development requirements. In terms of quality control and testing automation, we have independently developed a one-stop testing management tool platform for AI products, connecting key links such as continuous integration, automatic testing, problem tracking and feedback. During the Reporting Period, the Group did not have any product recall due to safety and health reasons.

We continuously improve our service standards, strive to continuously improve customer satisfaction and optimize product quality while protecting the interests of customers and the Company. We launched the construction of the Group's after-sales service system, carried out the formulation of the Group's after-sales service process documents, gradually standardized the after-sales service related processing procedures such as after-sales technical support, after-sales maintenance and customer complaints, clarified the scope of responsibilities of relevant positions in each business department, and strengthened the construction of the after-sales service team of each business group. We have set up professional teams such as the after-sales team of SCG TSC (Smart City Group Technical Service Center) and the hardware after-sales service center to ensure that after-sales problems of different types of products (including software, hardware and software integration) can be solved in a timely and effective manner. We also plan to build a more systematic service system in the future, unify the after-sales service windows, service platforms, service standards and traceability systems, and establish a unified after-sales service data statistics, analysis, evaluation and improvement mechanism.

Adhering to the "customer first" business orientation, we provide customers with diversified communication and feedback channels such as telephone, mail, WeChat official account, website, and customer satisfaction survey, so as to timely understand the shortcomings of products and make improvements from customer feedback. In addition, the customer complaint handling team and the Group's business operation team of the business groups of SenseTime conduct monthly spot checks on customer complaint feedback, conduct statistics and follow-up on the quality of customer complaint handling, identify deficiencies in a timely manner, and organize relevant departments to solve and improve. After receiving customer complaints, we have established the *Customer Complaint Handling Worksheet* in the after-sales service system to make judgments and labeling on the urgency or importance of the work order, and take corresponding handling procedures according to the customer complaint level, and set up a customer complaint handling team to timely solve and follow up the customer complaint problems. Since listing in 2021, the Group has continuously improved the management mechanism related to customer service, and plans to establish more systematic customer complaint channels and management process in 2022. During the reporting period, we received 34 complaints about product quality in the supply chain, and the complaint handling rate was 100%.

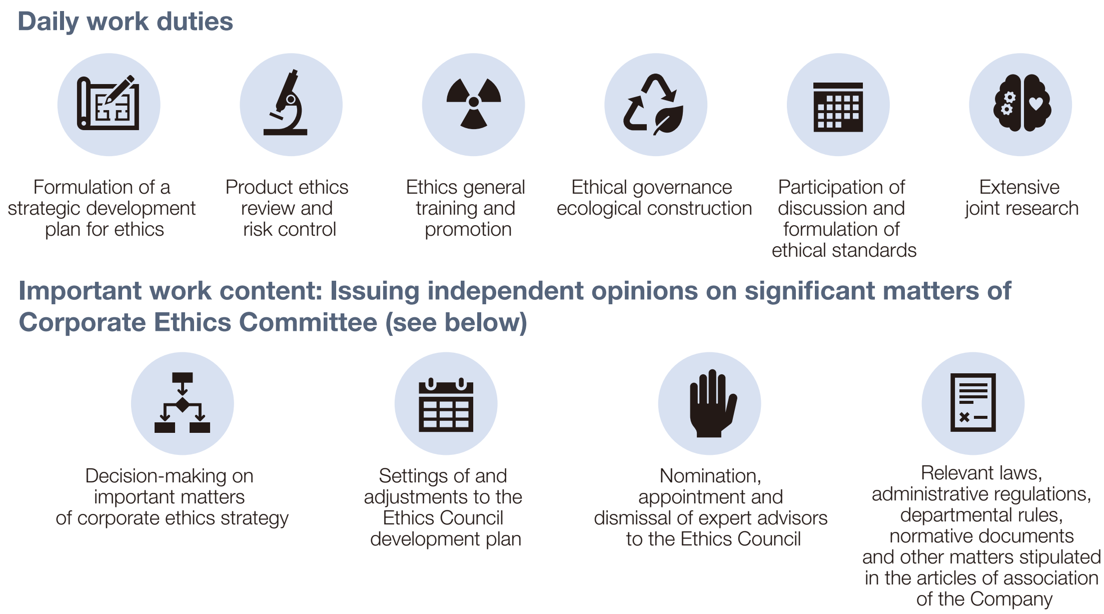
AI Ethics

We not only attach importance to the innovation and R&D of artificial intelligence, but also placed artificial intelligence ethics and governance in a key position. We continued to create a “global AI ethics risk database”, covering over 100 positive and negative events and case analysis of global AI ethics and governance. We have established a strict ethical risk control system and ethical review mechanism to build ethical review and risk control standards from three aspects, namely data risk, algorithm risk and social risk, and set up AI ethical review procedures in the whole process and the whole life cycle of product approval, research and development, release and operation to ensure that 100% of new product R&D projects of SenseTime have undergone ethical review. During the review, an accumulate of approximately 10% of product proposals have been rejected according to ethical standards. During the Reporting Period, we focused on promoting the construction of risk control system, strengthened the depth of ethical review, and introduced external experts to improve and optimize the risk control mechanism and ethical review model, and formulated the ethical review standard indicator system.



Artificial Intelligence System Ethical Risk Management Index System

In order to further promote the independent and professional operation of the ethics construction and review work of SenseTime, we have established the Artificial Intelligence Ethics Council as the first responsible organization for artificial intelligence ethics construction, which is responsible for formulating and implementing the value principles, review specifications, development strategies and specific measures of artificial intelligence ethics, focusing on promoting the members of the organization to practice AI ethics norms within the enterprise, and promoting the implementation of AI sustainable development strategies of SenseTime. Our Artificial Intelligence Ethics Council consists of an external consultant and an independent non-executive Director, all of whom are academic experts in the field of artificial intelligence ethics. We also provide training on ethical risk control and review mechanism for key employees to ensure the smooth operation of ethical risk control and review.



Daily work duties and important work content of Artificial Intelligence Ethics Council

Information Security and Privacy Management

As a world-leading artificial intelligence platform company, information security and data privacy protection are always among the top priority for us. We strictly abide by national laws and regulations related to information security, such as the *Cyber Security Law of the People's Republic of China*, the *Data Security Law of the People's Republic of China*, and the *Personal Information Protection Law of the People's Republic of China*. We have formulated management policies such as the *Information Security Risk Management Regulations of SenseTime Group*, the *Network Security Management Regulations of SenseTime Group*, the *Product Data Security Management Regulations of SenseTime Group*, the *Research Data Sharing Management Regulations of SenseTime Group*, and the *Personal Information Security Management Regulations of SenseTime Group* in accordance with relevant domestic and foreign laws and regulations. We continuously strengthen the construction of information security management system, and build up network security and privacy protection capabilities through a series of measures to provide strong AI-based security capabilities for ourselves and our customers.

We continue to focus on building an information security and data privacy protection management system, and resolutely protect information security and user data privacy. As at the end of the Reporting Period, we were the first AI enterprise to obtain all three certifications of ISO/IEC 27001: 2013 Information Security Management System Certification, Personal Identity Information Protection Management System Certification (ISO/IEC 29151: 2017) and Privacy Information Management System Certification (ISO/IEC 27701: 2019).

We have established an information security policy of "business-driven security, comprehensive and controllable risks, compliant use of personal information and privacy information, and effective data protection", set up an Information Security Management Committee, fully implemented and standardized the construction of information security management system, and promoted the establishment of emergency response mechanism. We also have established a dedicated Data Security and Personal Information Protection Committee under the Information Security Management Committee, which is responsible for the strict implementation and promotion of data security control measures.

We have formulated a network security emergency plan to continuously monitor the safety of products during the emergency response stage of product safety development, and pay attention to the latest threat intelligence in the industry to timely check the information security compliance. We have also established an independent database and share no personal information of our customers or end users with any other third parties; setting up a server system with enhanced security performance protection to ensure that the data transmitted is encrypted throughout the link; carry out user account review and monitoring on server operation regularly to ensure the security of server system and application; audit records are traceable for sensitive operations of personal information to ensure the security of audit records. In addition, we regularly conduct information security training and publicity for employees in accordance with the *Regulations on Information Security Training Management of SenseTime Group* to enhance the information security awareness of all employees and ensure the stable operation of information security management. We also attach great importance to data security in product design. We conduct data risk control on data privacy, data quality and data protection in the development and application of artificial intelligence through ethical risk review and control mechanism, and ensure that products pass data privacy assessment and security testing before delivery to customers.

In addition to focusing on information security and personal privacy protection in the course of our business operations, we also use AI technology to facilitate the construction of data privacy security in other industries. During the Reporting Period, we actively promoted the formulation and implementation of the data security protection standards for smart vehicles, and took the lead in completing the establishment of the group standard of the *Technical Requirements and Methods for Automobile Transmission Video and Image Desensitization*, so as to realize the intelligent processing of data desensitization with AI, and promote the construction of a safe, reliable and efficient data transfer closed-loop system in the automobile industry.

RESPONSIBLE COMMUNITY, INCLUSIVE CONTRIBUTION TO SOCIETY

Adhering to the development concept of "people-oriented" and "AI for good", SenseTime is committed to solving social problems with technology and contributing sustainable and positive values to the long-term development of society. As an AI industry leader, we actively build our ecosystem, work with partners to share responsibility and value, and jointly promote the healthy development of the industry; at the same time, the Group will make use of our own resources and technological advantages to continuously promote the benefits of science and technology and digital inclusion, fulfil our corporate social responsibility and vision mission, and make artificial intelligence heart-warming.

Supporting Industry Development

Resources Sharing

As a pioneer in the industry, we actively share our knowledge and labor achievements, driving the protection and development of intellectual property rights in the industry. In addition to continuously providing scientific research results to the public through the publication of high-quality papers, we have also launched an open source algorithm system, and published 10 shared code databases and approximately 1,500 artificial intelligence models on major open source algorithm platforms, which has played a positive role in promoting artificial intelligence technology and reducing the entry barrier of small and medium-sized enterprises. We continue to promote the construction of open-source communities, establish close relationships with many scientific researchers and industry participants, and jointly promote the development of the industry. As of the end of the Reporting Period, the open-source algorithm system has received more than 47,000 stars on Github, with more than 600 community contributors and users from more than 110 countries and regions around the world. The world's top universities, research institutions and enterprises are using the open-source algorithm system to conduct algorithm research and development.

In order to help the industry to achieve open source compliance and respect of intellectual property rights, we jointly initiated the establishment of a patent pool for artificial intelligence industry with our peers during the Reporting Period to accelerate collaborative innovation and promote the application of intellectual property achievements in the artificial intelligence industry. We also actively participate in relevant public organizations and regulatory consultation, and strive to promote the awareness of intellectual property protection in the industry. In addition, as a member of the National Information Technology Standardization Technical Committee, the China Intellectual Property Research Association, the China Patent Protection Association and other important organizations, we actively participate in the feedback on the legislative amendments to the PRC patent and trademark laws and regulations, and also participate in the development of standard patent affairs, especially using the accumulation of computer vision technology to promote patent standardization.

Promoting Communication

We actively promote industrial exchanges and cooperation, and participate in the launch of Global Artificial Intelligence Academic Alliance (GAIAA) and Artificial Intelligence Computing Power Industry Ecological Alliance (ICAA), to create a top-notch platform for academic exchanges and cooperation for the industry. During the Reporting Period, we, as an important member of the relevant alliances, assisted in carrying out diversified industry activities, such as hosting of the 2021 Science and Technology Frontier Congress of the WAIC (World Artificial Intelligence Conference), promoting the implementation of the “Shanghai Artificial Intelligence Lecture Hall” activity, undertaking the Pujiang Education Forum, and launching the “In Class” activity, so as to promote academic exchanges, multilateral cooperation and talent cultivation in the industry.

2021 WAIC

Coordinated Development

We cooperate with the government, enterprises and society to jointly build and share the AI ethics and governance ecosystem. We conduct joint research with universities and think tank institutions such as the Global Artificial Intelligence Academic Alliance, Tsinghua University and Shanghai Jiao Tong University, and actively carry out cooperation projects to promote the development of AI technology in a responsible and sustainable manner. We have also carried out in-depth cooperation with the United Nations and other international organizations. During the Reporting Period, we, together with Qing Yuan Research Institute of Shanghai Jiao Tong University and AIII Artificial Intelligence International Research Institute, jointly issued the *Balance Development of AI-AI Sustainable Development Report 2021-2022* to advocate the concept of "development". In addition, we actively participate in the formulation of industry, national and international standards on data security, privacy protection, artificial intelligence ethics and sustainable artificial intelligence. As of the end of the Reporting Period, we have participated in more than 70 domestic and international standard organizations, mainly preparing more than 80 standards, and worked closely with many domestic and multilateral agencies on the sustainable and ethical development of artificial intelligence.

Partner	Project name
Koguan School of Law, Shanghai Jiao Tong University	AI Ethics and Justice Case Studies
	A Comparative Study of AI Ethics and Legislation
Computational Law and Artificial Intelligence Ethics Research Centre of Shanghai Jiaotong University	Application of Data Evidence in Formal Justice to the Value Group
	Research on International Rules of Digital Economy Industry
	Risks and Prevention of Urban Technology Governance in the Era of Pandemic
	Research on Wisdom Judicial in Governing the Source of Contradictions and Disputes
	Research on Legal Attributes and Ownership of Data
Shanghai Institute of Science	A Social Experiment on Bioinformatics Characteristics of Digital City
International Institute of Artificial Intelligence, Tsinghua University	Report on Digital and Intelligent Governance in the Post-pandemic Era
	Corporate Social Responsibility Report on Sustainability Concept

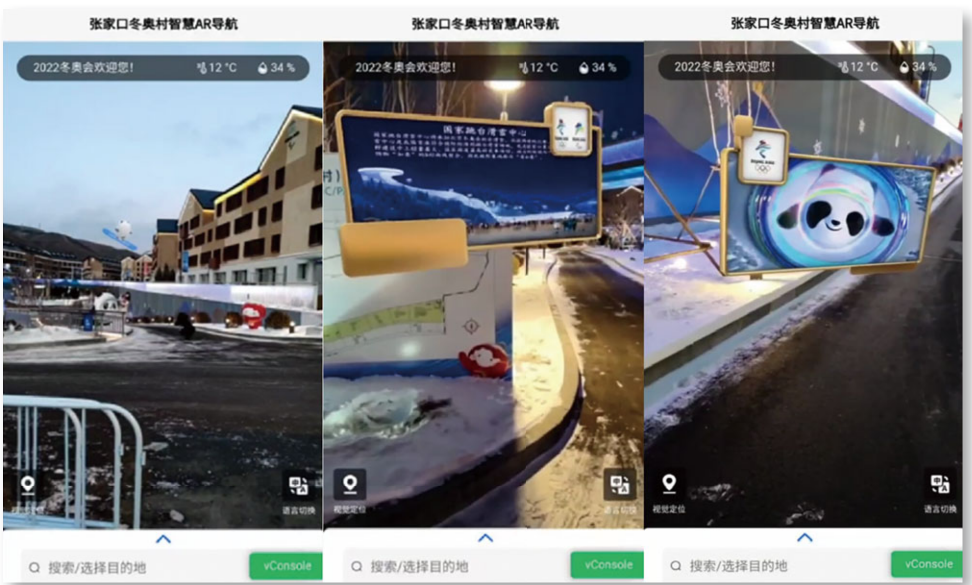
Artificial Intelligence Cooperation Project

Digital Inclusion

We actively promote the deep integration of digital technology and inclusive development, launch key projects that combine AI technology innovation and application with social responsibility in multiple fields, and use scientific and technological forces to help economic growth, boost the morale of Chinese people, and improve the benefit of citizens.

AI for a Strong Nation of Sports

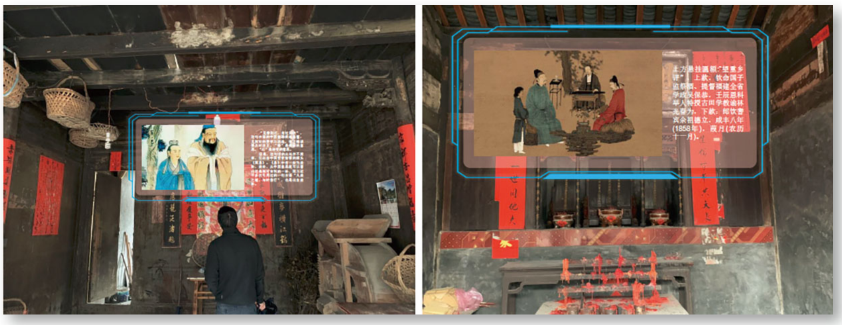
Strong sports makes a strong nation, and technology make sports better. Under the special support of the Ministry of Science and Technology, through the integration and application of AI and AR technologies, we assisted the "Science and Technology Winter Olympics" in many aspects, and further promoted the construction of a sports major power and a healthy China. We participated in and were responsible for the project of "Research on Intelligent Perception and Virtuous Integration Technology and Platform of Curling Competition" led by the National Swimming Center, which transformed the competition into an interactive form that is easy to understand by the audience through digital and virtualized ways, and shortened the distance between the online public and the sports field, helping the Winter Olympics to achieve the goal of "driving 300 million people to participate in winter sports" in advance. We also use our own technology to improve the digital and intelligent level of the Olympics Village, help athletes get familiar with the environment of the Winter Olympics Village more quickly, provide better living experience, and show the humanity sentiment of the Winter Olympics Village.



Digitalization of Winter Olympics Village

AI Digital Villages

Digital villages are the strategic direction of rural revitalization and an important part of building a digital China. We actively responded to the national call of "accelerating the construction of digital villages", and during the Reporting Period, we cooperated with the government of Songyang County, Lishui, Zhejiang Province to carry out the AI rural cultural tourism project, combined with digital technology, to achieve a fine investigation and scientific planning of rural cultural tourism resources, help rural cultural tourism management improve quality and efficiency, and fully release the rural production potential. Through VR/AR/MR and other technologies, we have restored the historical old look of the ancient architecture dated back to several hundred years ago. By adding digital billboards, we have shown the inheritance stories behind the historical monuments, such as the grain donation story behind the plaque and the family leap story behind the genealogy; at the same time, focusing on the unique intangible cultural heritage in rural areas, we developed digital creative products and featured tourism IPs, which greatly enhanced the added value of rural culture.



Rural Cultural Tourism Digitalisation in Songyang County

AI Smart Medical Care

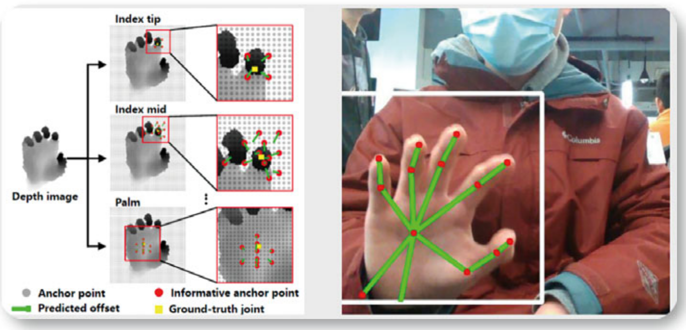
It is the persistent pursuit of "AI for Good" of SenseTime to make life healthier, better and more dignified. We launched the SenseCare® smart diagnosis and treatment platform to help hospitals and doctors, and serve patients and the public, and use AI technology to help the "intelligent" development of the medical and health industry. At the critical juncture of the prevention and control of the COVID-19 pandemic, we swiftly upgraded the platform against COVID-19, provided smart assistance to frontline medical staff, reduced cross-infection risks, and helped hospitals and medical institutions obtain remote assistance in the form of cloud services to relieve the pressure of frontline doctors.

We are also committed to the construction of scientific research cooperation platforms, the construction of medical artificial intelligence disciplines, talent training and national key research and development projects, so as to build an innovation cornerstone for the cutting-edge core technologies and applications of medical artificial intelligence. We have established the "West China Hospital-SenseTime Joint Laboratory" with West China Hospital of Sichuan University to carry out in-depth cooperation in the clinical application of medical artificial intelligence technology and the construction of smart hospitals.

Smart clinical system of West China Hospital

AI Education for All

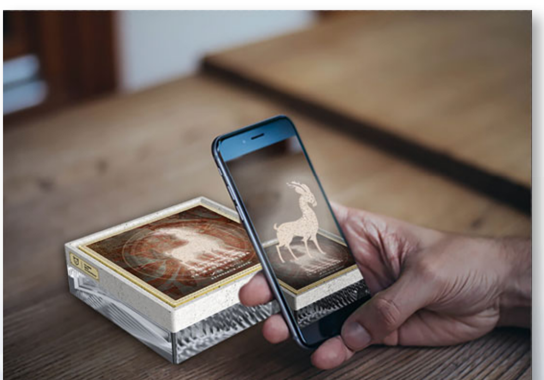
New technologies continue to expand the possibility of education in terms of time and space, and drive the optimization and upgrading of the education industry. As a pioneer in the industry, we are committed to creating systematic artificial intelligence literacy education solutions and continuously promoting the development of AI fundamental education. During the Reporting Period, we launched the second phase of the AI teacher training program "Liaoyuan Plan", which inspired primary teachers' teaching methods by sending lectures to schools by experts, and provided a community platform for teachers to promote exchanges and sharing; a total of 192 teachers from 19 provinces and cities across the country participated in the project. We also held the third International Youth Artificial Intelligence Exchange Exhibition (IAIF) to continuously explore outstanding youth science and technology innovation projects and cultivate future AI innovation talents. In addition, we actively responded to the strategic needs of "building a science and technology innovation center with global influence" of Shanghai municipality, and became one of the first batch of scientific and technological innovation education bases for students (teenagers) in Shanghai (2021-2024). We gave full play to the efficiency of high-quality scientific and technological innovation education resources, and built a common platform for more students to cultivate scientific and technological interests, experience the scientific and technological innovation process, and improve the scientific and technological innovation quality, so as to help the comprehensive education reform.



2021 IAIF Award

AI and Digital Transformation of Cultural Creative Products

We continue to explore the integration and innovation of traditional culture and modern technology, and strive to enrich the cultural life experience of the public while applying original technology to inherit traditional culture. During the Reporting Period, we conducted in-depth exploration in the field of digital products with our partners in the field of cultural creative products, and combined AI and AR technologies with the connotation of mercy, wisdom and beauty in Dunhuang Culture to create a digital platform for Dunhuang-themed cultural creative products, which provides diversified gameplay and presentation forms for Dunhuang-themed cultural creative products series, and explores the new form of digital products that integrate cultural arts and modern technology. We have also built the SenseTime AR platform, and continued to cooperate with the Palace Museum Publishing House to combine AI and AR technologies with cultural relics in the *Palace Museum Calendar*, so as to provide readers with a visual experience of virtual and real integration, and explore the possibility of combining AR with anti-counterfeiting to effectively protect the rights and interests of readers.


Dunhuang-themed cultural creative products

Contributions to People's Livelihood

We devote ourselves to social welfare undertakings, pay attention to the trend of people's livelihood, actively respond to major social emergency events, help the poor, promote culture, give back to the society with love and responsibility, and join hands with all walks of life to build a good and harmonious social environment.

Supporting Pandemic Prevention and Control

Since the outbreak of COVID-19, we have actively leveraged our own advantages, implemented state requirements, demonstrated our responsibility, and comprehensively supported the pandemic prevention and control work. In addition to providing high-performance computing resources for drug and virus-related research of scientific research institutions, we launched the "AI Intelligent Pandemic Prevention Solution", applying the regional traffic module to help public transportation hubs such as terminals and subway stations in various location to relieve passenger flow pressure and improve the screening quality and efficiency of suspected patients in transportation hubs. We built the SenseTime SenseThunder-E integrated thermal imaging temperature measurement machine with high-precision algorithm to quickly detect the body temperature of people entering and leaving public places, immediately remind those who do not wear masks, and track abnormal conditions to effectively block the possible spread of the pandemic and enable the "anti-pandemic" digitalization and intelligence. In the context of the normalization of the global pandemic, our AI-based smart pandemic prevention solutions and products have been widely used in a wide range of anti-pandemic scenarios around the world, providing support for many industries, ensuring the safety of communities and workplaces, reducing the risk of infection for frontline workers, and helping the resumption of work for enterprises and resumption of classes for students.

Intelligent temperature measurement screening system

Promoting Vocational Education

We actively respond to the requirements of the CPC Central Committee on "improving the vocational education and training system, deepening the integration of industry and education, and school-enterprise cooperation", and combine our own industrial advantages to help the development of vocational education. We continue to promote the integration of artificial intelligence into vocational education classes, build courses and practical training systems suitable for artificial intelligence talent training, support colleges and universities to continuously optimize the planning for majors, join up the needs of enterprises and industries related to local industrial layout, and cultivate high-quality technical and skilled talents urgently needed for the society. At the same time, we actively support vocational skills competitions in various provinces, such as the 2021 "Hubei Craftsman Cup" Skills Competition, the Guangdong Provincial Augmented Reality Technology and Applied Vocational Skills Competition, and the Jiangsu Provincial Artificial Intelligence Application Technology Skills Competition. Through the competition, we connected the schools with industrial needs, deepened the integration of vocational colleges and high-quality enterprises in production and education, and strengthened the connection and cooperation between secondary vocational and undergraduate education, jointly built an artificial intelligence technology skill talent training system, and improved the professional skills of job seekers.

Construction of Public Space

We are committed to assisting the government in urban governance and building an AI public cultural space through the close integration of technology and life scenarios, so that the general public can experience the inclusive application of artificial intelligence.

AI Experience Park	In order to allow more "office workers" to experience technology in close proximity, and expand the interaction distance between people in the post-pandemic era, we and Caohejing Street in Xuhui District jointly built an AI experience park integrating technology, citizen entertainment and interactive experience. We have deployed smart devices such as smart walkways, smart stations and smart innovation screens in the park, and upgraded the design of the "Smart Hot Stadium", so that citizens can enjoy the visible and visible advanced AI technology after busy work.
City Space Art Exhibition	During the Reporting Period, we actively responded to the call of "Good Governance, Industrial Development and People's Welfare" of Shanghai, and deeply participated in the urban space and art exhibition activity of "Blossom in Puhuitang" in Xuhui District. Through the AI+AR art special effects exhibition, we brought a special and warm technological experience to the citizens, and also provided the citizens with a good place for entertainment and leisure when the pandemic has not been completely faded. At the same time, we provided security for the prevention and control of the pandemic through the integrated AI temperature measurement machine, so that the public can enjoy the exhibition with peace of mind.

Contributing to Public Welfare

In addition to empowering social development with technology, we also attach great importance to investment in public welfare efforts, focusing on the needs of students in difficulties and public cultural organizations, and continuously contributing love and dedication to the society. In July 2021, Henan suffered from severe flooding due to extreme rainfall. We quickly contacted several university education foundations and made donations, and established the "SenseTime Relief Fund" to support college students from Henan who or whose families suffered losses due to floods. In October, we joined hands with the student office, foundation and alumni association beneficiaries to carry out the "Caring Action" seminar to help students in difficulties and their families overcome difficulties with practical actions, demonstrating the corporate commitment of SenseTime to actively contribute to the society and fulfill its social responsibility.

RESPONSIBILITY AND ENVIRONMENTAL PROTECTION, TECHNOLOGY EMPOWERING LOW CARBON

Addressing climate issues and achieving green and sustainable development have become the common goal of the world. As a pioneer in the artificial intelligence industry, SenseTime has always practiced the concept of green development and low-carbon strategy while actively participating in technological innovation to empower economic development. We give full play to the innovation potential of technology and industrial model, help achieve the dual carbon goals with technology, and continuously explore ways to save energy and reduce emissions, so as to reduce the environmental impact of all sectors of our operation.

AI Empowering Environmental Protection

As a typical representative of rising technology enterprises to practice carbon reduction, we give full play to our own technological advantages, empower carbon-intensive industries with advanced technologies, help digital transformation of energy and industry, and undertake the social responsibility of carbon neutrality. Utilizing our sound technical practices in artificial intelligence to empower comprehensive urban governance, enterprise digital transformation, and personal smart life, we actively help green transformation in energy, environment, transportation and other fields, and realize the value transformation from internal pilot projects to external services.

Energy sector “AI + AR Inspection”	We use AI + AR technology to facilitate smart grid inspection, and provide standardized end-to-end solutions through the SenseMARS platform, so as to improve the efficiency of electric power operation and maintenance, save time and labor costs, and effectively ensure the safe operation of the grid after the large-scale grid connection of new energy.
Environmental sector “Smart remote sensing”	Based on our own remote sensing technology, we have built a brand-new ecological environment intelligent remote sensing supervision platform for the West Coast New District of Qingdao. By fully integrating the existing system data, we have formed an information island chain in the field of ecological environment, and realized the unified “storage, management and output” of ecological environment data in the whole district.
Digital sector “Undersea Data Centre”	Leveraging on our extensive experience in the maintenance and use of data centers, during the Reporting Period, we initiated the construction of the first commercial undersea data center in China with our partners to jointly carry out the technical practice of green energy-saving undersea data centers, so as to verify the reliability, safety and stability of the undersea data centers and make contributions to carbon neutrality and carbon peak.
Transportation sector “High-speed railway grid inspection system”	We have built a “Starry Sky” 4C (overhead systems suspension status monitoring device) intelligent analysis system to help solve many sore points in the maintenance of high-speed railway power grids, improve the testing efficiency by 20 times, and effectively reduce indirect carbon emissions in the transportation industry. With our successful practice in this area, we were selected as the APEC (Asia-Pacific Economic Cooperation) “China Digital Economy Industry Model 50”. During the Reporting Period, the “Starry Sky” system successively completed the 4C image recognition comparison and analysis for overhead systems of 13 railway lines in 6 railway administrations, and achieved outstanding results, realizing the automatic detection of overhead systems defects. As at the end of the Reporting Period, SenseTime has helped to achieve the national high-speed railway inspection mileage of more than 30,000 kilometers. In the future, we will continue to deeply cultivate original technology innovation, provide strong support for the rapid development of China’s railway industry, and promote the empowerment of all walks of life with AI technology.

Practice Green Operation

We integrate the concept of low-carbon development into our daily operations, actively promote energy conservation and emission reduction, improve resource utilization rate, and reduce negative impacts on the environment. We also actively create a green and healthy workplace, create a corporate atmosphere of conservation and environmental protection, and work with all sectors of society to protect our green home.

Energy and Carbon Management

We actively construct our internal dual-carbon governance system. During the Reporting Period, we launched the Group's carbon neutrality strategy, and clarified the strategic goal of "planning to achieve carbon peak emissions by 2025, striving to achieve operational carbon neutrality by 2030, and achieving net zero emissions by 2050". We also established a carbon neutrality development research center to be responsible for promoting the specific implementation of dual-carbon work. Starting with self-carbon reduction and AI empowerment, we explored feasible ways to reduce carbon emissions through technology, so as to create a benchmark case of smart carbon reduction.

As an internet technology enterprise, our carbon emissions mainly derives from the use of electricity, of which the use of electricity for large internet infrastructure such as data centers and cloud computing centers is the main source of energy consumption. In view of this, we have formulated detailed energy conservation and emission reduction goals and strategies during the Reporting Period, and continuously explored energy conservation and emission reduction paths suitable for our own development and that of the industry, and worked together with our employees and partners to move towards the goals.

Time	Goal
Before 2025	Effectively control the growth rate of energy consumption throughout the Company, actively promote the PUE (Power Usage Effectiveness) reduction of AIDC (Artificial Intelligent Data Center), steadily reduce office energy consumption through energy management, energy-saving technological transformation and other means, accelerate the formulation and implementation of the Company's energy consumption optimization management system, and accelerate the research and promotion of the dual carbon management methods of the supply chain.
2025–2030	Study and fully implement the carbon neutrality solutions for the Company's new projects, accelerate the neutralization of the Company's existing carbon emissions through the combination of self-built and market, comprehensively promote artificial intelligence technology to empower dual-carbon technology, and assist the whole society to accelerate the exploration of the dual-carbon path based on AI algorithm.
2030–2050	Fully implement the carbon neutrality requirements of supply chain and procurement, accelerate the realization of neutralization closed-loop management for employees' travel, commuting and other behaviors and activities, and implement carbon neutrality and recyclability for logistics transportation and the use of consumables, so as to truly achieve closed-loop zero carbon with the goal of fully exploiting our own potential and closed-loop zero waste with the goal of fully implementing the logistics circulation.

We strictly abide by the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China* and other relevant laws and regulations, formulated policies such as the *Regulations on Energy Management of Resources* and the *Energy Conservation and Consumption Reduction in Beijing*, continuously strengthen the management of resource use in the production and operation process, and take a number of energy conservation and emission reduction measures, including optimizing the energy structure by replacing the use of renewable energy, transforming the energy consumption system by means of comprehensive analysis of energy efficiency and replacement of energy-saving technologies in all links, and setting dual carbon audit standards for upstream supply chains, investment portfolios and partners, so as to implement energy conservation and emission reduction work and practice the concept of green operation.

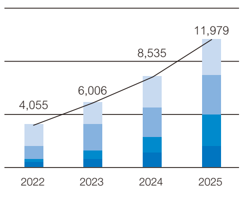
Shanghai Lingang AIDC Project

We have built a sustainable carbon reduction system for the AIDC in Lingang, Shanghai, to check the core indicators of energy use in operation on a real-time basis, and promote energy conservation and emission reduction in three directions: energy system optimization, energy-saving technology application and low-carbon operation and maintenance management.

Optimization Measures and Energy-saving Efficiency of Shanghai Lingang AIDC Project

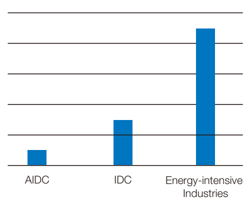
	Usage of traditional products	Usage of SenseTime products	Effect
Refrigeration system optimisation	• Equipment: Fixed frequency centrifuge • Material: chilled water • Process: far infrared/ electrode humidification	High-efficiency frequency conversion centrifuge High-temperature chilled water Wet film humidification	Improved COP Cooler efficiency increased by 3-5%/°C Energy consumption reduced by 80%
	Using cold plate liquid cooling server and AHU indirect evaporative cooling		Improved cooling efficiency
Optimisation of the power consumption system	Using energy-saving power supply system architecture: 220kv direct-to-10kv high-voltage power supply system architecture and distributed low-voltage power distribution system architecture are employed to comprehensively reduce network electricity loss by approximately 50%		
	Using high-efficiency UPSECO mode: high-efficiency UPS single-circuit efficiency is increased from 95% to 99%, and dual-circuit efficiency is increased from 95% to 97%		
	Using LED energy-saving lamps to reduce lighting power		
Optimisation of its own building energy consumption	Photovoltaic power generation: photovoltaic power generation devices are installed on the roof of the operation and maintenance centre to meet its basic lighting and some office needs.		**AI group control + refined operation and maintenance**

Business Features and Deployment



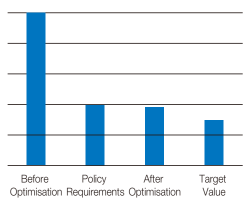
While improving computing power, SenseTime AIDC further increases the efficiency of computing power usage and the iteration efficiency of its own original algorithms.

Energy Consumption Per RMB10,000 GDP



SenseTime AIDC's overall energy consumption per unit of added value in Shanghai is far superior to the average level of IDC and traditional industries.

Designed PUE

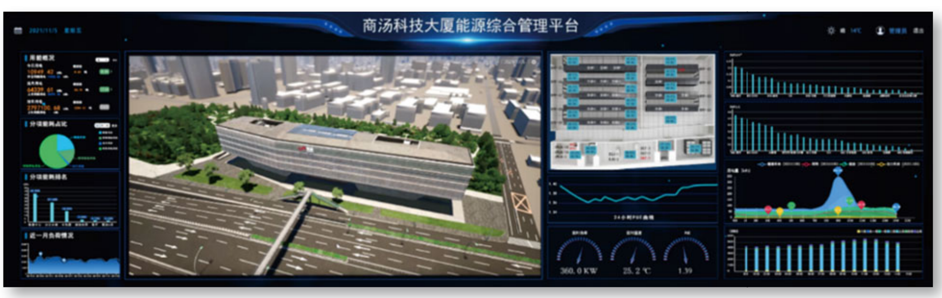


With the new energy-saving technology, the average annual non-IT power consumption is reduced by 33%, and the subsequent operation and maintenance costs can be further reduced.

Shanghai Lingang AIDC Project Optimization Measures and Energy Saving Effects

SenseTime Technology Tower Project

We deployed an integrated energy management platform in SenseTime Shanghai Headquarter Building. Through data analysis, we conducted in-depth exploration of energy consumption data of office facilities operation from four dimensions, namely load classification, time pattern, space division and organization management, and carried out energy efficiency assessment and carbon verification.



SenseTime HQ Building Energy Integrated Management Platform

We actively promote the concept of green workplace and continuously optimize the operation and management of office premises, such as improving the efficiency of equipment and facilities, switching off non-essential mechanical and electrical equipment, measuring and managing employees' travel and attendance, and advocating paperless office, so as to guide employees to jointly create a green atmosphere. In addition, we also attach importance to the promotion and education of environmental awareness of all employees. During the Reporting Period, we established a carbon neutrality publicity and implementation platform by the Carbon Neutral Development Research Center. Through the combination of online and offline methods, we popularized and publicized the knowledge of dual carbon among employees, improved the environmental awareness of all employees, and guided all business lines to expand the dual carbon-related business.

Industry Opportunities and Outlook in the Context of "Dual Carbon" Forum

During the Reporting Period, our energy consumption and greenhouse gas emissions are as follows:

Type	2021
Energy Consumption	
Total Energy Consumption (MWh)	**13,980.1**
Total direct energy consumption (MWh)	**1,679.8**
Including: Gasoline (MWh)	**28.5**
Natural gas (MWh)	**1,651.3**
Total indirect energy consumption (MWh)	**12,300.3**
Including: Purchased electricity (MWh)	**12,300.3**
Intensity of energy consumption (MWh/person)	**2.3**
Greenhouse Gas Emissions	
Total GHG emissions (Scope 1 and Scope 2) (tCO_2 e)	**6,814.4**
Direct GHG emissions (Scope 1) (tCO_2 e)	**337.2**
Including: Fossil fuel combustion (tons of carbon dioxide equivalent)	**337.2**
Indirect GHG emissions (Scope 2) (tCO_2 e)	**6,477.2**
Including: Purchased electricity (tCO_2 e)	**6,477.2**
GHG emission intensity (tonnes/person)	**1.1**

Notes:

1. Total energy consumption is calculated based on the electricity consumption, fuel consumption and the default values of fossil fuel-related parameters in Appendix 2 of the Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions of Enterprises in Other Industries issued by the National Development and Reform Commission.

2. Greenhouse gas emissions are calculated in accordance with the Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions of Enterprises in Other Industries issued by the National Development and Reform Commission, as well as the average carbon dioxide emission factor of China's regional power grid published in recent years and IEA Emission factors 2020.

3. Based on the characteristics of our operations, our greenhouse gas emissions mainly come from direct greenhouse gas emissions (Scope 1) caused by gasoline consumption of the Group's business and freight vehicles, and energy indirect greenhouse gas emissions (Scope 2) caused by purchased electricity.

Water Resources Management

We strictly abide by the *Water Law of the People's Republic of China*, the *Water Pollution Prevention and Control Law of the People's Republic of China* and other relevant laws and regulations, actively fulfill the responsibilities and obligations of pollutant management, and continuously strengthen water consumption management. There is no exhaust gas generated during our operation and the pollutants involved are only domestic sewage. We strictly control the water consumption indicators and sewage discharge. During the Reporting Period, we formulated the *2022 Planned Water Consumption Indicators* as the latest water efficiency target, and adopted a number of measures to reduce water consumption and sewage discharge. We conduct key inspections and regular inspections and maintenance on equipment with high water consumption, and ensure that all data records are complete and traceable; also, we always stay alert to any leakage of pipes, valves and taps in public areas and toilets to reduce unnecessary water consumption. In the future, we will explore and apply more innovative water-saving methods, continue to enhance employees' awareness of water conservation, and improve the utilization efficiency of water resources in the process of business development.

During the Reporting Period, our water consumption and wastewater discharge are as follows:

Type	2021
Water consumption	
Total water consumption (tonnes)	**39,129.9**
Water consumption intensity (tonnes/person)	**6.4**
Waste water discharge	
Total wastewater discharge (tonnes)	**35,216.9**
Intensity of wastewater discharge (tonnes/person)	**5.8**

Notes:

1. The water we use is from municipal tap water supply. During the reporting period, the Group did not have any illegal water use incidents.

2. The emissions generated during our operation are mainly a small amount of domestic sewage, which is discharged into municipal pipelines for treatment. Total wastewater discharge is estimated based on water consumption.

Packaging Materials Management

The packaging materials we use in our production and operation process mainly include carton boxes, stretch film, sealing adhesives and foam. During the Reporting Period, we continued to promote the recycling of packaging materials, streamline and improve the packaging model, save the consumption of packaging materials, and reduce the impact on the environment. In the future, we will strive to reduce the consumption of packaging materials from the source, promote the use of green materials in the overall supply chain, optimize the use of materials, improve the recycling rate of materials, and jointly achieve green development.

During the Reporting Period, our consumption of packaging materials is as follows:

Type	2021
Packaging material consumption	
Total packaging material consumption (tonnes)	**2.8**
Packaging material consumption intensity (tonnes/person)	**0.00046**

Waste Management

The non-hazardous waste generated by us is mainly domestic waste, which is classified and recycled according to the waste classification principle of the place where we operate. The waste is centrally collected and transferred to the waste transfer station for unified recycling by the municipal sanitation department, and the waste transfer work is well done. During the Reporting Period, we continued to implement strict waste management procedures and reduce waste emissions by reusing and reusing obsolete office equipment and other resources. In the future, we will continue to comply with the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, dispose of solid waste generated in the course of operation in a compliant manner, promote the recycling of waste, and encourage employees to classify waste and reduce the generation of domestic waste.

During the Reporting Period, our waste discharge was as follows:

Type	2021
Waste discharge	
Total non-hazardous waste (tonnes)	**984.2**
Non-hazardous waste intensity (tonnes/person)	**0.16**

Note:

1. We do not produce any hazardous waste in our daily operations, and a small amount of waste such as dry batteries and light tubes from offices are disposed of by qualified institutions. Therefore, KPI A1.3 (total hazardous waste produced and intensity) has no material impact on the Group and is not disclosed in this report.

Responding to Climate Change

We continue to pay attention to climate change and actively identify the risks and opportunities faced by SenseTime in the context of climate change. In addition to identifying potential physical risks such as extreme climate disasters and wide-area environmental changes, we also clarify the policy risks and reputational risks faced by enterprises in the process of transforming to a low-carbon and climate-adaptive economy, and comprehensively review the challenges and opportunities brought by climate change to the Company's daily operations, business expansion and investment decisions.

In order to cope with the identified climate change challenges and mitigate the impact of climate change-related issues on corporate development, during the Reporting Period, we established the Corporate Social Responsibility Department to promote the establishment of climate change response process and response mechanism, and improve climate change-related risk management capabilities; furthermore, we established a carbon neutrality research and development center, which is responsible for the integration, evaluation, expansion and publicity of the Company's dual-carbon business, continuously tracking the development trend of domestic carbon neutrality, and conducting overall research on the application of AI in the field of dual-carbon.

RESPONSIBLE EMPLOYER, CARING FOR GROWTH OF THE EMPLOYEE

SenseTime regards organizational capacity building and "insisting on the foundation of talent development" as the basis of our business, create a working environment of equal, harmonious and diversified cultural integration and development, and build an employee training and development system that keeps pace with the times, continuously attracts and trains top talents, and jointly shape the future.

Rights Protection

Recruitment and Enrollment

In strict compliance with the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, the *Provisions on the Prohibition of Using Child Labor* and labor-related laws and regulations in other countries and regions where our subsidiaries domicile, we have formulated a series of employment-related rules and regulations, entered into labor contracts with all employees, protected the legitimate rights and interests of employees, and established a friendly and harmonious labor relationship with them. Adhering to the concept of equality and openness, we attract outstanding talents through diversified recruitment channels and scientific interview methods, and provide fair and reasonable employment and competition opportunities for all candidates. We do not discriminate against any person on the grounds of age, gender, physical health, marital status, race, skin color, nationality, religion, sexual orientation, etc. We prohibit the recruitment of minors. We conduct pre-employment background checks on every candidate to verify their identity information, educational background, work experience and other background information, so as to ensure that the recruitment process is in compliance with laws and regulations and avoid the employment of child labor. Since our establishment, the Group has not employed any child labor.

During the Reporting Period, we were awarded 11 best employer awards, including "Liepin National Extraordinary Employer", "The Company Worth Joining of the Year", "Boss Zhipin King's Ark Favourite Talent Employer Award", "Interface News Annual Artificial Intelligence Industry Excellent Employer" and "Nowcoder.com Technology Campus Recruits' Most Favourite Enterprise". As at the end of the Reporting Period, the Group had a total of 5,142 regular employees and 971 interns. The specific number of employees and turnover rate are as follows:

Indicators	Employee structure (person)	Turnover rate (%)
Total	6,113	13.6
By gender		
Male	4,493	14.1
Female	1,620	12.0
By age		
Under 30 years old	2,919	11.3
30-50 years old	3,179	15.5
Over 50 years old	15	21.1
By geographical region		
Mainland China	5,775	13.6
Hong Kong, Macao and Taiwan	112	9.6
Other countries and regions	226	15.3

Note:

1. Employee turnover rate = number of employees leaving employment during the reporting year/(number of employees at the end of the reporting year + number of employees leaving employment during the reporting year).

Working Hours and Holidays

We strictly abide by the labor laws and local policies in the countries and regions where our subsidiaries locate to formulate working hours and leave management systems, and clarify working hours and leave arrangements in the labor contracts signed between employees and the Company to protect the legitimate rights and interests of employees. We explicitly prohibit forced labor by means of violence, threats, or illegal restriction of personal freedom to ensure reasonable and sufficient rest time for employees, and encourage employees to combine work and rest while completing their duties. During the Reporting Period, there was no forced labor situation in the Group. In addition to ensuring that employees enjoy the holidays stipulated by the place where the labor contract is located, we also implement various special welfare and holiday plans, such as special holidays including the Children's Day Companion Leave and the Double Ninth Festival Companion Leave, as well as annual leave for employees with increasing service age to help them better balance work and life.

Remuneration and Benefits

We provide employees with highly competitive remuneration and benefits, and provide them with a reasonable and equal remuneration system, training opportunities and promotion channels based on objective standards such as position, personal ability, work performance and contribution. In strict compliance with relevant national and local government regulations, we provide employees with statutory basic guarantees such as five social insurances and one housing fund, and provide employees and their families with flexible and customized exclusive commercial insurance. In addition, we provide employees with a variety of welfare benefits, such as caring gift packs for employees' major life moments and career milestones.

Appraisal and Promotion

SenseTime promotes a performance management culture of comprehensive contribution, adheres to the principle of objective and fair performance evaluation, and recognizes the overall contribution and value creation of employees to the organization. We have established an employee assessment management system that combines Objective and Key Results ("OKR") target management and semi-annual assessment. We conduct assessment on all employees in the middle and end of each year, and comprehensively evaluate employees' work output and cultural values, so as to provide timely incentives and recognition to outstanding employees. We encourage the collaboration of work goals. In the process of setting goals and achieving results, we encourage supervisors to provide guidance and feedback to employees in a timely manner, and encourage employees to make continuous and high-performance contributions to the Group.

We adhere to the principle of "safeguarding with culture and seeing the growth" and continue to promote the construction of career development system. We carry out the Group's promotion work every year on a regular basis, and arrange appropriate evaluation adjudicators according to different development channels and promotion ranks, and promote the review work in a fair and impartial manner according to rules and procedures. At the same time, we publicize the promotion ability standards for employees, and match them with corresponding learning resources to help employees develop and grow.

Career Growth

Since our establishment, SenseTime has adhered to the talent development as the foundation, invested a large amount of resources to build a learning system that meets the career development path and the entire life cycle of employees. Guided by the innovative development and comprehensive development of talents, SenseTime has occupied the high ground of talents and led the development trend of the AI industry.

For new employees recruited from schools, we arranged learning programs such as “AI Navigator” and “AI Pioneer”, focusing on empowerment and on-the-job training practice to help employees improve their job competence; for social recruitment employees, SenseTime provides rich online learning content and offline centralized training; we provide on-the-job mentors for each employee to provide all-round guidance on professional ability and ideological construction.

In order to consolidate the career development system of employees, we provide employees with professional training at different stages and positions. We have organized a team of top experts to develop micro-courses in various professional fields to provide direction guidance for professional advancement; at the same time, we match the soft skills courses taught by internal and external experts to assist the Company’s general ability training system and comprehensively improve the comprehensive capabilities of employees.

For managers at different stages of development, we design a leadership development system for managers at different levels based on SenseTime’s own leadership model, combined with rich internal and external resources.

We continued to build an online learning platform of SenseTime to accumulate rich learning content. During the Reporting Period, we added more than 200 online learning topics, covering more than 5,200 attendances. Through continuous empowerment of employees, SenseTime strives to build a learning-oriented organization in the new era and promote the common development of employees and the Company. As at the end of the Reporting Period, 98% of the employees of SenseTime received training, with an average of approximately 100 training hours.

Indicators	Percentage of employees trained (%)	Average training hours per employee (hours)
By gender		
Male	73.3%	97.8
Female	26.7%	106.0
By employment type		
Management	6.4%	102.9
Non-management	93.6%	99.8

Notes:

1. Percentage of employees trained = number of employees trained of the category during the Reporting Period/total number of employees trained * 100%.

2. Average training hours per employee = total training hours of employees in the category during the reporting period/total number of employees in the category.

Safeguard of the Health

SenseTime has been striving to protect the health and safety of employees. By continuously improving the health and safety management mechanism, it has created a multi-channel and multi-form health management mode to provide all-round support for employees to maintain physical and mental health. We strictly abide by applicable safety and health laws and regulations such as the *Labor Law of the People's Republic of China* and the *Fire Protection Law of the People's Republic of China*, and have formulated the *Daily Management Standards for the Office Environmental Standards of SenseTime Group*, the *Fire Safety Management Manual of SenseTime Group*, the *Physical Safety Management Manual of SenseTime Group*, and the *Working Guidelines for Hazard Identification, Risk Assessment and Risk Control of SenseTime Group*. We have established an early warning mechanism related to health and safety in the workplace, improved the efficiency of workplace safety management, and timely identified and eliminated potential safety hazards. We also attach great importance to the publicity of safety awareness to the employees, gradually establish a workplace occupational health and safety training system, regularly organize all employees to conduct fire drills and training, and organize some employees to conduct first-aider training and obtain relevant certificates.

In addition, we arrange annual physical examinations for employees, and regularly carry out interpretation of the physical examination reports to help employees understand their physical conditions, prevent health risks and ensure their physical health. We also equipped our employees with professional psychological counseling doctors, provide them with mental health consultations in the long run, and regularly launch mental health classes. We regularly carry out safety first aid knowledge training in major workplaces, arrange online and offline health lectures, popularize health knowledge to employees, help employees learn and master daily first aid measures and disease prevention knowledge, and safeguard their health and safety.

Against the backdrop of the normalization of the COVID-19 pandemic, we formulated the *Guidelines for the Prevention and Control of the Mass Pandemic of SenseTime Group* to protect the health and safety of employees through a series of pandemic prevention management measures. In addition to the implementation of pandemic prevention and control in the office, such as disinfection and ventilation in the office and inspection and registration of external visitors, we opened a psychological counseling hotline for employees during the pandemic, and strengthened employees' awareness of pandemic prevention by regularly sending safety reminders for pandemic prevention and control. Confronting the ever-changing pandemic situation, we also adjusted the resumption of work in a timely manner, and flexibly formulated work formats such as working from home, staggered working hours or flexible working hours.

In the past three years, the Group did not have any fatality directly related to work. During the Reporting Period, the number of working days lost due to work injury was 1.5 days.

Employee Care

Employee Communication

We continue to create an open communication environment, listen to the real feedback of employees through diversified channels, and solve various problems in the process of corporate development in a timely and effective manner. We use the platform of "the Way of SenseTime" to interpret the cultural values of SenseTime and answer employees' questions about corporate culture. We regularly hold face-to-face communication meetings between employees and senior management, and set up local management committees in Beijing, Shanghai and Shenzhen to manage and make decisions on major issues in local management and employee communication, so as to promote healthy communication within the Company and enhance mutual understanding and trust between the Company and employees.

In addition, during the Reporting Period, we continued to carry out employee satisfaction surveys, listened to the voices of employees, and paid close attention to employees' feedback and make improvements accordingly. The results of the survey show that the employee satisfaction and the level of commitment in 2021 have increased significantly compared with that of 2020.

Cultural and Sports Activities

In order to further enhance employees' sense of happiness at work and enrich their cultural life after work, we regularly hold various cultural and sports activities, such as employee birthday parties, special sports games, fitness activities, etc. During the Reporting Period, we held an annual corporate meeting to convey our corporate culture to our employees and commend teams and individuals with outstanding achievements in business, technology and management, etc.; we also held the "Goat is Great" Cup Sports League and the Company's Anniversary Week to enable every employee to feel a happy and comfortable corporate atmosphere.

RESPONSIBLE SUPPLY CHAIN, JOIN HANDS TO BUILD A SUSTAINABLE VALUE CHAIN

SenseTime adheres to the principle of fair and just supply chain management, integrates social responsibility into supply chain management, and continuously strengthens supplier certification and assessment. At the same time, we deeply promote the establishment of partnership with suppliers, working together to build a responsible supply chain and provide customers with safe and reliable high-quality products.

Supply Chain Management

We have formulated the *Introduction and Assessment Management Regulations for Direct Procurement Suppliers of SenseTime Group* to clarify the specific responsibilities of employees in key positions, and standardize the introduction and assessment management of direct procurement suppliers to ensure that the materials provided by suppliers meet the product production and delivery requirements. We strictly implement the supplier introduction procedure, review the environmental management, business continuity management, social responsibility management, hazardous substance management and other aspects of suppliers during the introduction stage, adhere to the principle of fairness and justice, and select suppliers that meet the certification of qualified system and fulfill social responsibility in compliance with regulations.

Supplier Introduction Process

We actively identify and control environmental and social risks in each link of the supply chain, and are committed to building a sustainable supply chain that is socially responsible and environmentally responsible. In the process of cooperation, we continuously monitor the production and supply behaviors of suppliers, and require suppliers to comply with relevant code of conduct in terms of human rights, labor, health and safety, and environmental protection. At the same time, we actively promote the policy of conflict-free minerals, prohibit the purchase of products, components and materials involving conflict minerals, and require suppliers to comply with relevant requirements for the source of raw materials. In addition, we continuously advocate suppliers to actively adopt environmental friendly products, give priority to cooperation with suppliers focusing on ecological protection, and jointly reduce the carbon footprint of the overall supply chain.

Supply Chain Audit

We regularly review suppliers, conduct comprehensive evaluation according to their actual circumstances regarding delivery and cooperation, and carry out promotion of superior and elimination of inferior for suppliers to ensure the stability of product and service quality and business continuity. We have established a sound supplier quality system review system and implemented a modular assessment method covering 16 items for review. Among them, the "Quality & RoHS System Review" includes 11 review modules such as quality platform management and design development control, and the "EMS/BCM/RBA/Trade Safety Review" includes 5 review modules such as environmental management and social responsibility management.

Based on the assessment results, we classify suppliers into four grades, namely A, B, C and D, we provide grade A suppliers with priority opportunities for orders and terminate cooperation with grade D suppliers immediately; we require grade B suppliers to rectify the deficiencies, and review and follow-up guidance on the proposed improvement plans until the improvement is completed; we require grade C suppliers to examine, analyze and rectify, and reduce the proportion of orders by 10%-30% and on-site guidance according to the actual situation; We also provide training and guidance to suppliers with insufficient capabilities, and eliminate and replace suppliers who always fail to meet the rectification requirements.

Review Section	Review module
Quality & RoHS System Review	Quality platform management, design and development control, supplier quality management, contract review, process control, warehousing and transportation management, product identification and traceability, production equipment and measuring instruments, personnel qualifications and training, hazardous substance management (HSF), customer support and services
EMS/BCM/RBA/Trade Security System Review	Environmental Management (EMS), Business Continuity Management (BCM), Social Responsibility Management (RBA), Trade Safety Standards (TSS), Supplier Product and Service Safety

Composition of supplier quality system review system

During the Reporting Period, we established cooperative relationships with a total of 286 suppliers.

Number of suppliers by geographical region

2021 Total	**286**
Mainland China	265
Hong Kong, Macao and Taiwan	14
Other countries and regions	7

Independent Auditor's Report

To the Shareholders of SenseTime Group Inc.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of SenseTime Group Inc. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 111 to 243, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

KEY AUDIT MATTERS

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

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

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

Key Audit Matters	How our audit addressed the Key Audit Matters
Revenue recognition – revenue recognised at a point in time Refer to Note 2.26 and Note 5 to the consolidated financial statements. During the year ended 31 December 2021, the Group recognised revenue of RMB4,700.3 million primarily from sales of advanced Artificial Intelligence (hereinafter "AI") software, sales of AI software platform and related services, sales of AI software-embedded hardware and provision of research and development services. Revenue is recognised upon transfer of control, over time or at a point in time, depending on the nature of the arrangements. Majority of the Group's revenue was recognised at a point in time, when the goods and related services are delivered to the customer's designated place, inspected and accepted by the customer. We focused on this area because significant audit resources were devoted to this area due to the large volume of revenue transactions from various customers during the year.	Our procedures in relation to the auditing of revenue recognition included: We understood, evaluated and tested, on a sample basis, the Group's relevant controls in relation to revenue recognition; We inspected sales contracts, on a sample basis, to identify terms and conditions relating to the transfer of control and assessing the Group's timing of revenue recognition with reference to the requirements of prevailing accounting standards; We tested the transactions, on a sample basis, by examining the relevant supporting documents, including sales contracts or customer orders, customers' acceptance notes, etc. to assess whether revenue was properly recognised; We tested sales transactions recorded before and after the balance sheet date, on a sample basis, by tracing to the supporting documents, including the relevant customers' acceptance notes, etc. to assess whether revenue was recognised in the correct reporting period; We sent confirmations, on a sample basis, to the customers to confirm the sales transactions for the year and respective trade receivable balances as at the year end date; Based on the procedures performed, we found that the Group's revenue recognised was supported by the evidence obtained.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment assessment of trade and other receivables Refer to Note 2.12, Note 3.1(b), Note 4.1 and Note 23 to the consolidated financial statements. As at 31 December 2021, the Group recorded gross balance of trade and other receivables of approximately RMB6,743.0 million in which a corresponding allowance for expected credit loss ("ECL") of RMB1,330.0 million was recorded. The loss allowances for trade and other receivables reflected management's best estimate to determine the ECL at the balance sheet date under IFRS 9. For trade receivables with objective evidence of impairment and subject to separate assessment for impairment provision, management applied simplified approach to perform impairment assessment based on estimated cash flows and took into considerations of current and future economic situations to calculate the expected credit loss and to provide for individual impairment allowances. For trade receivables without objective evidence of impairment, simplified approach is applied to loss allowances by first grouping trade receivables based on their nature and risk characteristics and then analysing their aging information before further incorporating forward-looking adjustment factors, such as China's Gross Domestic Product ("GDP"), to reflect the management's forecasts of macroeconomic factors in different scenarios as this affects the debtors' abilities to settle the receivables.	Our procedures in relation to impairment assessment of trade and other receivables included: We obtained an understanding of management's internal control and assessment process of the impairment of trade and other receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors. We evaluated and tested, on the sample basis, the Group's relevant controls in relation to the impairment assessment of trade and other receivables; In respect of the methods, significant assumptions and data used and judgements made by management: 1) We assessed the appropriateness of the ECL provisioning methodologies adopted by management; 2) We tested, on a sample basis, the accuracy of the key data inputs used by management in the impairment assessment such as the aging schedules of trade and other receivables; 3) We evaluated the reasonableness of grouping of trade receivables and staging determination for other receivables against their nature and risk characteristics; 4) We assessed the significant assumptions applied by management in the estimated cash flows in the separate assessment of trade and other receivables based on information such as financial status and repayment history of the debtors;

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment assessment of trade and other receivables (continued) For other receivables, management assessed whether their credit risk had increased significantly since their initial recognition and applied the three-stage approach to provide for their ECL using a modelling approach that incorporated key parameters and assumptions (including probability of default, loss given default, exposure at default, etc.). We focused on this area due to the significance of the balance of trade and other receivables and complex estimates and judgements were involved in the assessment of expected credit losses mentioned above.	5) We assessed the reasonableness of the detailed application of the key ECL model parameters and assumptions including probability of default, loss given default, exposure at default by considering the historical default rates and past collection information; 6) We evaluated the appropriateness of forward looking information applied, such as China's GDP with reference to market data and our industry knowledge including multiple economic scenarios and parameters; 7) We evaluated the results of management's sensitivity analysis of the forward looking information using reasonably possible changes of the relevant key parameters; and 8) We tested the mathematical accuracy of the calculations of expected credit loss rates based on the historical loss and forward-looking information, and the expected credit loss provisions. Based on the procedures performed, we found that the estimates and judgements applied by the Group in the impairment assessment of trade and other receivables were supported by the evidence obtained.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters	How our audit addressed the Key Audit Matters
Fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments Refer to Note 2.12, Note 3.3, Note 4.2 and Note 26 to the consolidated financial statements. As at 31 December 2021, the Group's financial assets at fair value through profit or loss amounted to approximately RMB4,583.5 million, of which approximately RMB4,151.6 million of these financial assets were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". Level 3 financial instruments include debt investments in funds, debt and equity investments in unlisted companies and structured deposits. Management engaged an external valuer to assist in determining the fair value of these financial assets. The fair value determination of such financial assets required management to make judgments and estimates, including the appropriateness of the adoption of applicable valuation methods and using various unobservable inputs. Valuation methods used include discounted cash flow model and market approach etc. Significant assumptions adopted by management in the valuation include expected volatility, risk-free interest rate, discount for lack of marketability ("DLOM") and expected rate of return. We focused on this area due to the significance of the balances of these investments, as well as significant judgments, assumptions and estimations were applied by the management in the fair value determination of these financial assets which are subject to high degree of estimation uncertainty and high level of inherent risk.	Our procedures in relation to fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments included: We obtained an understanding of the management's internal control and assessment process of the fair value measurement and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; We evaluated and tested, on a sample basis, the Group's relevant controls in relation to the fair value measurement of the Level 3 financial instruments; We evaluated the external valuer's competence, capability and objectivity by assessing its qualifications, relevant experience and relationship with the Group; For debt and equity investments in unlisted companies and structured deposits, we involved our internal valuation expert to discuss with management and the external valuer and assess the reasonableness of valuation methods, significant assumptions and inputs used. We assessed the underlying assumptions including expected volatility, risk-free interest rate, DLOM and expected rate of return based on our industry knowledge and market data, such as market interest rates, trading multiples of comparable companies, etc.; For debt investments in funds, we involved our internal valuation expert to interview the relevant fund managers to obtain an understanding of the accounting policies used by these investee funds as well as the valuation methods and significant assumptions used in determining the net asset value of these investee funds; We tested the mathematical accuracy of the calculation applied in the valuation models and the fair value changes on investments measured at fair value through profit or loss during the year. Based on the procedures performed, we found that the significant judgments, assumptions and estimations applied in the Group's fair value measurement of financial assets at fair value through profit or loss under Level 3 financial instruments were supported by the evidence obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CHAN Chiu Kong, Edmond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2022

Consolidated Income Statement

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue	5(a)	**4,700,263**	3,446,165
Cost of sales	6	**(1,422,625)**	(1,014,081)
Gross profit		**3,277,638**	2,432,084
Selling expenses	6	**(681,584)**	(536,521)
Administrative expenses	6	**(2,298,362)**	(1,589,519)
Research and development expenses	6	**(3,614,140)**	(2,453,874)
Net impairment losses on financial assets	3.1(b)	**(517,608)**	(522,046)
Other income	8	**504,280**	352,784
Other (losses)/gains-net	9	**(399,958)**	505,314
Operating loss		**(3,729,734)**	(1,811,778)
Finance income		**187,716**	174,902
Finance cost		**(33,758)**	(112,509)
Finance income-net	10	**153,958**	62,393
Share of losses of investments accounted for using the equity method	12	**(40,231)**	(6,055)
Fair value losses of preferred share and other financial liabilities	30	**(13,525,537)**	(10,563,577)
Loss before income tax		**(17,141,544)**	(12,319,017)
Income tax (expense)/credit	13	**(35,506)**	160,670
Loss for the year		**(17,177,050)**	(12,158,347)
Loss is attributable to:			
Equity holders of the Company		**(17,140,086)**	(12,158,193)
Non-controlling interests		**(36,964)**	(154)
		(17,177,050)	(12,158,347)
Loss per share for loss attributable to equity holders of the Company			
Basic and diluted loss per share (RMB)	14	**(1.74)**	(1.33)

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

Consolidated Statement of Comprehensive Loss

	Note	2021 RMB'000	2020 RMB'000
		Year ended 31 December	
Loss for the year		**(17,177,050)**	(12,158,347)
Other comprehensive income			
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**201,501**	234,945
Items that will not be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**684,637**	1,203,301
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	30	**(128,297)**	(498,299)
Other comprehensive income for the year, net of taxes		**757,841**	939,947
Total comprehensive loss for the year		**(16,419,209)**	(11,218,400)
Total comprehensive loss for the year is attributable to:			
Equity holders of the Company		**(16,382,245)**	(11,218,246)
Non-controlling interests		**(36,964)**	(154)
		(16,419,209)	(11,218,400)

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

Consolidated Balance Sheet

		As at 31 December	
	Note	**2021**	2020
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**2,909,263**	1,906,479
Right-of-use assets	17	**432,164**	335,948
Intangible assets	18	**224,586**	108,032
Contract assets	5(e)	**20,335**	2,729
Investments accounted for using the equity method	12	**26,930**	70,325
Deferred income tax assets	20	**457,199**	450,283
Financial assets at fair value through profit or loss	26	**4,310,970**	3,738,568
Long-term receivables	24	**306,860**	127,502
Other non-current assets	19	**171,795**	12,705
		8,860,102	6,752,571
Current assets			
Inventories	21	**496,144**	715,521
Contract assets	5(e)	**19,023**	22,464
Trade, other receivables and prepayments	23	**5,775,885**	4,583,548
Amount due from preferred shareholders	25	**–**	8,593,109
Financial assets at fair value through profit or loss	26	**272,549**	–
Restricted cash	27	**319**	493,364
Term deposits	27	**4,990,791**	5,890,189
Cash and cash equivalents	27	**16,529,506**	11,427,871
		28,084,217	31,726,066
Total assets		**36,944,319**	38,478,637
Equity			
Equity/(deficits) attributable to equity holders of the Company			
Share capital	28	**5**	2
Other reserves	29	**70,077,626**	(432,856)
Currency translation reserves		**1,964,093**	1,077,955
Accumulated losses		**(40,149,213)**	(21,713,334)
		31,892,511	(21,068,233)
Non-controlling interests		**94,573**	135,693
Total equity/(deficits)		**31,987,084**	(20,932,540)

Consolidated Balance Sheet

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	36	**339,505**	423,000
Lease liabilities	17	**228,802**	184,113
Deferred income tax liabilities	20	**43,316**	7,608
Contract liabilities	34	**37,550**	9,341
Deferred revenue	37	**140,251**	349,532
Preferred share and other financial liabilities	30	**1,072,583**	48,288,049
Long-term payables	32(b)	**44,955**	66,148
Put option liability	35	**255,028**	260,996
		2,161,990	49,588,787
Current liabilities			
Borrowings	36	**383**	593,561
Trade and other payables	32(a)	**2,290,258**	1,724,456
Amount due to preferred shareholders	33	**–**	5,206,029
Lease liabilities	17	**155,495**	109,524
Contract liabilities	34	**172,131**	244,052
Deferred revenue	37	**171,130**	–
Current income tax liabilities		**5,848**	33,155
Preferred share and other financial liabilities	30	**–**	1,911,613
		2,795,245	9,822,390
Total liabilities		**4,957,235**	59,411,177
Total equity/(deficits) and liabilities		**36,944,319**	38,478,637
Net current assets		**25,288,972**	21,903,676
Total assets less current liabilities		**34,149,074**	28,656,247

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

The financial statements on pages 111 to 243 were approved by the Board of Directors on 25 March 2022 and were signed on its behalf.

Xu Li	**Xu Bing**
Director	*Director*

Consolidated Statement of Changes on Equity

	Note	Share capital RMB'000	Other reserves RMB'000	Currency translation reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity/ (deficits) RMB'000
		Equity/(deficits) attributable to equity holders of the Company						
As at 1 January 2021		2	(432,856)	1,077,955	(21,713,334)	(21,068,233)	135,693	(20,932,540)
Comprehensive loss								
Loss for the year		–	–	–	(17,140,086)	(17,140,086)	(36,964)	(17,177,050)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	30	–	(128,297)	–	–	(128,297)	–	(128,297)
Exchange differences on translation of foreign operations		–	–	886,138	–	886,138	–	886,138
Total comprehensive loss		–	(128,297)	886,138	(17,140,086)	(16,382,245)	(36,964)	(16,419,209)
Transactions with equity holders								
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	28, 30	*	4,610,673	–	–	4,610,673	–	4,610,673
Issuance of ordinary shares for share-based compensation plan	28, 30	*	(*)	–	–	–	–	–
Conversion of convertible redeemable preferred shares to Class B ordinary shares	28, 30	3	64,374,173	–	(1,296,414)	63,077,762	–	63,077,762
Exercise of restricted shares and share options		–	73,409	–	–	73,409	–	73,409
Capital contribution by controlling shareholder	29	–	10,365	–	–	10,365	–	10,365
Consideration paid to the then equity holders for acquisition of subsidiaries under common control	29	–	(13,766)	–	–	(13,766)	–	(13,766)
Share-based compensation	7, 29, 31	–	1,583,925	–	–	1,583,925	–	1,583,925
Transactions with non-controlling shareholders		–	–	–	–	–	(8,983)	(8,983)
Warrant granted to a third party which was recognised as an equity instrument	18(i)	–	–	–	–	–	4,827	4,827
Others		–	–	–	621	621	–	621
Total transactions with equity holders		3	70,638,779	–	(1,295,793)	69,342,989	(4,156)	69,338,833
As at 31 December 2021		5	70,077,626	1,964,093	(40,149,213)	31,892,511	94,573	31,987,084

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

Consolidated Statement of Changes on Equity

	Note	Deficits attributable to equity holders of the Company						
		Share capital RMB'000	Other reserves RMB'000	Currency translation reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total deficits RMB'000
As at 1 January 2020		2	(873,184)	(360,291)	(9,556,673)	(10,790,146)	135,847	(10,654,299)
Comprehensive loss								
Loss for the year		–	–	–	(12,158,193)	(12,158,193)	(154)	(12,158,347)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	30	–	(498,299)	–	–	(498,299)	–	(498,299)
Exchange differences on translation of foreign operations		–	–	1,438,246	–	1,438,246	–	1,438,246
Total comprehensive loss		–	(498,299)	1,438,246	(12,158,193)	(11,218,246)	(154)	(11,218,400)
Transactions with equity holders								
Exercise of restricted shares and share options		–	12,480	–	–	12,480	–	12,480
Loans waived by controlling shareholder	29	–	39,104	–	–	39,104	–	39,104
Share-based compensation	7, 29, 31	–	887,043	–	–	887,043	–	887,043
Others		–	–	–	1,532	1,532	–	1,532
Total transactions with equity holders		–	938,627	–	1,532	940,159	–	940,159
As at 31 December 2020		2	(432,856)	1,077,955	(21,713,334)	(21,068,233)	135,693	(20,932,540)

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

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

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash used in operations	38(a)	**(2,447,650)**	(1,215,698)
Income tax paid		**(37,791)**	(13,115)
Net cash used in operating activities		**(2,485,441)**	(1,228,813)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,073,109)**	(1,209,757)
Purchase of intangible assets		**(192,404)**	(28,083)
Purchase of land use right		**–**	(67,674)
Proceeds from disposal of property, plant and equipment		**8,402**	1,630
Acquisition of investments accounted for using the equity method	12	**(1,000)**	(17,500)
Dividend and interest received from financial assets at fair value through profit and loss	8	**6,154**	–
Acquisition of investments in financial assets at fair value through profit and loss	26	**(1,319,018)**	(957,580)
Disposal of investments in financial assets at fair value through profit and loss	26	**90,083**	65,834
Net decrease/(increase) in investments in term deposits	27	**942,362**	(5,012,586)
Interest received from banks		**131,219**	234,682
Net cash out for the settlement of foreign forward contract	9	**–**	(72,666)
Acquisition of structured deposits	26	**(15,429,000)**	(6,933,000)
Disposal of structured deposits	26	**15,235,034**	6,966,061
Repayments of loans granted to third parties and related parties		**53,203**	167
Loans granted to third parties and related parties	23	**–**	(40,000)
Net cash used in investing activities		**(1,548,074)**	(7,070,472)

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares relating to the initial public offering by deduction of the underwriting commission		**4,643,021**	–
Proceeds from borrowings	38(c)	**363,147**	1,129,235
Repayments of borrowings	38(c)	**(1,038,467)**	(3,440,580)
Interest paid	38(c)	**(20,130)**	(124,031)
Principal elements of lease payments	38(c)	**(127,488)**	(128,261)
Interest elements of lease payments	10, 38(c)	**(13,841)**	(16,830)
Proceeds from amount due to preferred shareholders		**–**	5,179,444
Repayments of amount due to preferred shareholders		**(5,206,029)**	(65,505)
Payment of purchase of non-controlling interests		**(8,983)**	–
Proceeds from issuance of preferred share liabilities by the Company	38(c)	**9,202,353**	6,846,992
Proceeds from issuance of preferred shares by a subsidiary	30(b), 38(c)	**988,234**	–
Repurchase of warrant liability	30(c)	**(17,045)**	–
Net changes in restricted cash for the issuance of bank borrowings and note payables	27	**493,045**	3,791,260
Capital injection by limited partners of investment fund controlled by the Group	30(d)	**85,000**	–
Consideration paid to the then equity holders for acquisition of subsidiaries under common control		**(13,766)**	–
Payment of the listing expenses which was deducted from equity		**(4,729)**	–
Loans provided by controlling shareholder		**–**	13,918
Proceeds from exercise of restricted shares and share options		**43,795**	–
Capital contribution by controlling shareholder		**10,365**	–
Net cash generated from financing activities		**9,378,482**	13,185,642
Net increase in cash and cash equivalents		**5,344,967**	4,886,357
Cash and cash equivalents at beginning of year		**11,427,871**	6,672,914
Effect of foreign exchange rates changes		**(243,332)**	(131,400)
Cash and cash equivalents at end of year		**16,529,506**	11,427,871

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

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

SenseTime Group Inc. (the "Company") was incorporated in the Cayman Islands on 15 October 2014 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is ICS Corporate Services (Cayman) Limited, 3-212 Governors Square, 23 Lime Tree Bay Avenue, P.O. Box 30746, Seven Mile Beach, Grand Cayman KY1-1203, Cayman Islands.

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

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

The ultimate holding company of the Company is Amind Inc., the ultimate controlling shareholder of the Group is Professor Tang Xiao'ou (湯曉鷗教授, "Prof. Tang").

On 30 December 2021, the Company has successful listed on the Main Board of the Stock Exchange of Hong Kong Limited and made an offering of 1,500,000,000 Class B ordinary shares (excluding any Class B ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at Hong Kong Dollar ("HKD") 3.85 per share. The gross proceeds received by the Company was approximately HKD5,775,000,000 (equivalent to approximately RMB4,715,461,000), which was detailed in Note 28. All convertible redeemable preferred shares were converted into Class B ordinary shares upon completion of the initial public offering ("IPO") on 30 December 2021, which was detailed in Note 30.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Amendment to standards adopted by the Group

The following amendment to standards has been adopted by the Group for the first time for the financial year beginning on 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – phase 2

The adoption of this amended standard does not have significant impact on the consolidated financial statements of the Group.

(b) New standards and interpretations not yet adopted

The followings are new standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

	Effective for accounting periods beginning on or after
IFRS 17 Insurance Contracts	1 January 2023
IAS 16 (Amendment) 'Property, Plant and Equipment – Proceeds Before Intended Use'	1 January 2022
IFRS 3 (Amendment) 'Reference to the Conceptual Framework'	1 January 2022
IAS 37 (Amendment) 'Onerous Contracts – Cost of Fulfilling a Contract'	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IAS 1 (Amendment) 'Classification of Liabilities as Current or Non-current'	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendment) – Disclosure of Accounting Policies	1 January 2023
IAS 8 (Amendment) – Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction Tax	1 January 2023
IFRS 17 and IFRS 9 (Amendment) – Initial Application of IFRS17 and IFRS 9 – Comparative Information	1 January 2023
Amendment to IFRS 10 and IAS 28 regarding sales or contribution assets between an investor and its associate or joint venture	To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated balance sheet respectively.

(i) Subsidiaries controlled through contractual arrangements

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

- govern the financial and operating policies of the Consolidated Affiliated Entities;
- exercise Individual Shareholders' voting rights of the Consolidated Affiliated Entities;
- exercise effective financial and operational control over of Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the technical and consulting services provided by certain PRC operating entities;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Subsidiaries controlled through contractual arrangements (continued)

- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in the Consolidated Affiliated Entities from the Individual Shareholders at a minimum purchase price permitted under the PRC laws and regulations and any proceeds from the transfer and any residual interests in the Consolidated Affiliated Entities shall be remitted to the Group immediately; and

- obtain a pledge over the entire equity interests of the Consolidated Affiliated Entities from their Individual Shareholders as collaterals to secure the payment obligations of all of the Consolidated Affiliated Entities' payments due to the Group and to secure performance of the Consolidated Affiliated Entities' obligation under Contractual Arrangements.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

(a) Consolidation (continued)

(ii) Business combinations

The acquisition method of accounting is used to account for all business combinations, other than business combination under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

(a) Consolidation (continued)

(ii) Business combinations (continued)

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Business combinations under common control

The consolidated financial statements incorporate the financial statement of the entities in which the common control combination occurs as if they had been consolidated from the date when the entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities. All inter-company transactions, balances and unrealised gains on transactions between combining entities or business are eliminated on consolidation.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive loss of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (Note 2.5), after initially being recognised at cost.

2.4 Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangement and determined it to be joint ventures. Interests in joint ventures are accounted for using the equity method (Note 2.5), after initially being recognised at cost in the consolidated balance sheets.

2.5 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in consolidated income statement, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2.6 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity holders of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to equity holders of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Changes in ownership interests (continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in consolidated income statement. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

If the ownership interest in an associate or joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to consolidated income statement where appropriate.

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company that makes strategic decisions.

2.8 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is US Dollar ("USD"). The Company's primary subsidiaries were incorporated in the mainland China, Hong Kong, Japan, Singapore and Middle East, and these subsidiaries considered RMB, HKD, Japanese Yen ("JPY"), Singapore dollars ("SGD") and Arab Emir Dirham ("AED") as their functional currency respectively. As the major operations of the Group are within the mainland China, the Group determined to present its consolidated financial statements in RMB.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within finance costs. All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within "other (losses)/gains – net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2.9 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of comprehensive loss during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Buildings and facilities	20 years
Leasehold improvement	Shorter of the lease terms or 3 years
Large-scale electronic equipment	5 years
Computer and related equipment	3 years
Office equipment and furniture	5 years
Transportation equipment and vehicles	4 years
Other equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains – net" in the consolidated income statement.

2.10 Intangible assets

(a) Research and development expenditure

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets (continued)

(a) Research and development expenditure (continued)

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

No research and development expenditures were capitalised during the year ended 31 December 2021.

(b) Patent

Separately acquired patents are shown at historical cost. They are amortised using the straight-line method over their estimated finite useful life of 5 years and are subsequently carried at cost less accumulated amortisation and impairment losses.

(c) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 years respectively.

(d) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over the estimated useful lives of 2-3 years.

(e) Licensed intellectual properties

Licensed intellectual properties are stated at historical cost less accumulated amortisation and accumulated impairment losses. Fixed minimum payments and warrant grant to licensor are capitalised as intangible asset when the Group obtains control of the licensed intellectual properties. The Group also pays variable fee to licensor based on sharing percentage of revenue from the licensed intellectual properties, which is recorded in profit or loss as incurred. The historical costs of licensed intellectual properties are measured at the present values of the fixed minimum payments and the fair value of warrant when the Group obtains control of the respective licensed intellectual properties.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets (continued)

(f) Useful life

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

Patent	5 years
Trademarks	10 years
Computer software	2-3 years
Licensed intellectual properties	4 years

When determining the useful life, the Directors has taken into the account the (i) estimated period that can bring economic benefits to the Group; (ii) the useful life estimated by the comparable companies in the market.

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (continued)

(a) Classification (continued)

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other (losses)/gains – net. Interest income from these financial assets is included in "finance income" using the effective interest rate method. Foreign exchange gains and losses are presented in "other (losses)/gains – net" and impairment losses are presented as separate line item in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (continued)

(c) Measurement (continued)

Debt instruments (continued)

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other (losses)/gains – net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "other income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other (losses)/gains – net" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.14 Inventories

Inventories are referred to purchased hardware and components and contract fulfillment cost. Inventories are stated at the lower of cost and net realizable value. Cost is determined on weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Trade and other receivables

Trade receivables are amounts due from customers for software and hardware sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 23 for further information about the Group's accounting for trade and other receivables and Note 3.1(b) for a description of the Group's impairment policies.

2.16 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash restricted for guaranteed deposits for bank borrowings or issuance of notes payables or other purpose were included in the restricted cash on the consolidated balance sheets.

Bank deposits with initial terms of over three months were included in the term deposits on the consolidated balance sheets.

2.17 Share capital and share held for share award scheme

Ordinary shares are classified as equity (Note 28). Mandatorily redeemable preferred shares are classified as liabilities (Note 30).

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders as treasury shares until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders. Unvested shares held by the Sense Talent Limited are disclosed as treasury shares and deducted from equity attributable to the Company's equity holders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as “other income” or “finance costs”.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Financial instruments

(a) Preferred shares issued by the Company

Holders of Series A-1, Series A-2, Series B-1, Series B-2, Series B-3, Series C-1, Series C-2, Series C+, Series C++, Series C-Prime, Series D and Series D+ preferred shares issued by the Company are redeemable upon occurrence of certain future events. These instruments can also be converted into ordinary shares of the Company at the option of the holders, or automatically upon occurrence of an IPO of the Company, or when agreed by majority of the preferred shareholders as detailed in Note 30.

The Group designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as "finance costs" in profit or loss. Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognised in profit or loss, except for the portion attributable to own credit risk change that should be charged to other comprehensive income. Amounts in other comprehensive income relating to changes in own credit risk were transferred to retained earnings when preferred share liabilities were derecognised.

The preferred shares were classified as non-current liabilities unless the preferred shares holders can demand the Company to redeem the preferred shares within 12 months after the end of the reporting period. As at 31 December 2021, all the preferred shares issued by the Company were converted into the Company's Class B ordinary shares as a result of a successful listing.

(b) Preferred shares issued by a subsidiary

Preferred shares issued by a subsidiary refer to the convertible preferred shares issued by a subsidiary of the Group (Note 30).

The subsidiary designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as "finance costs" in profit or loss. Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognised in profit or loss, except for the portion attributable to own credit risk change that should be charged to other comprehensive income.

The preferred shares were classified as non-current liabilities unless the preferred shares holders can demand the subsidiary to redeem the preferred shares within 12 months after the end of the reporting period.

(c) Warrant liability

Warrant liability arises from the warrant granted by the Company under which the holders have the rights to subscribe for the Company's preferred shares price during a specific period.

Warrant liability is initially recognised at fair value on the date a warrant contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Financial instruments (continued)

(d) Put option liability

Put option liability represents the put option granted to a non-controlling shareholder of the Group which the non-controlling shareholder could sell its equity interest to the Group at a pre-agreed price on the occurrence of some certain events. The put option liability is measured at amortised cost.

(e) Net asset value of investment funds attributable to limited partners

The investments made by limited partners to the funds controlled by the Group with fixed investment period is designated as financial liabilities at fair value through profit or loss.

2.22 Income tax expense

(a) Current income tax

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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet dates in the countries where the Company's subsidiaries and associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Income tax expense (continued)

(b) Deferred income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

2.23 Employee benefits

(a) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other postretirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group's contributions to these plans are expensed as incurred.

The Group entities in Hong Kong have arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF"), a defined contribution plan. Under the MPF, the Group entities in Hong Kong and their Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HKD1,500 per month, and any excess contributions are voluntary.

The Group has no further material obligation for post-retirement benefits beyond the contributions made.

(b) Housing funds, medical insurances and other social insurances

The PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (continued)

(c) Short-term obligation

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheets.

(d) Employee leave entitlement

Employee entitlement to annual leave are recognised when they have accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employees entitlement to sick leave and maternity leave are not recognised until the time of leave.

(e) Bonus plan

The expected cost of bonuses is recognised as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.24 Share-based compensation expenses

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of equity instruments (options) is recognised as an expense on the consolidated financial statements. The total amount to be expensed is determined by reference to the fair value of the equity instruments (options) granted:

- including any market performance conditions (for example, an entity's share price);

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Share-based compensation expenses (continued)

- excluding the impact of any service and non-market performance unlocking conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any lock-up period conditions (for example, the requirement for employees to save or holding shares for a specified time period after the vesting period).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement date and grant date.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognised for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognised over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognised over the remainder of the original vesting period.

If the Group receive or acquire goods or services, other than services from employees, in exchange for its own equity instruments, the fair value of goods or services received by an entity should be measurable directly. If the fair value cannot be measured reliably, the Group measures the value of the goods and services by reference to the fair value of the equity instruments granted as consideration.

2.25 Provision

Provisions for service warranties are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Provision (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.26 Revenue recognition

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Revenue recognition (continued)

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

The accounting policy for the Group's principal revenue sources

(i) Sales of advanced AI software

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Revenue recognition (continued)

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

(ii) Sales of AI software platform and related services

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

Revenue is recognised at a point in time when the AI software platform and related services are delivered to the customer's designated place, inspected and accepted by the customer. Certain sales contracts that the Group provides a total solution of which, revenue is recognised over time since the performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Such revenue is recognised based on the progress towards complete satisfaction in the contracts using input method which is determined as the proportion of the costs incurred for the work performed to date relative to the estimated total costs to complete the contract, to the extent that the amount can be measured reliably and its recovery is considered probable.

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

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

(iii) Sales of AI software-embedded hardware

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Revenue recognition (continued)

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

(iv) Research and development services

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

(v) Cloud services

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

(vi) Gross vs. net determination in revenue recognition

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

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

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

2.27 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see Note 9 below. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in "other income".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Note 37 provides further information on how the Group accounts for government grants.

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

Government grants relating to the purchase of property, plant and equipment and certain research and development projects are included in non-current liabilities as deferred revenue and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.29 Dividend income

Dividends are received from financial assets measured at FVPL. Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment.

2.30 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting date.

2.31 Leases

The Group leases properties and offices and land use right as lessee. Rental contracts are typically made for fixed periods of 1 to 50 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated balance sheet based on their nature.

2.32 Loss per share

(i) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.32 Loss per share (continued)

(ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the group entities' functional currency. The Company's functional currency is USD. The Company's primary subsidiaries were incorporated in the mainland China, Hong Kong, Japan, Singapore and Middle East, these subsidiaries considered RMB, HKD, JPY, SGD and AED as their functional currency, respectively.

The Group is primarily exposed to changes in HKD/RMB and HKD/USD exchange rates. As at 31 December 2021, if HKD had strengthened/weakened by 10% against RMB/USD with all other variables held constant, the Group's net loss for the year would have been RMB1,110,532,000 (2020: RMB/USD: RMB806,174,000) higher/lower as a result of foreign exchange gains/losses on translation of RMB/USD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables.

(ii) Cash flow and fair value interest rate risk

Except for cash and cash equivalents, restricted cash, term deposits (Note 27), structured deposits (Note 26(c)) and long-term receivables (Note 24), the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

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

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 36. The Group did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arises. In addition to borrowings, the long-term payables and preferred shares issued to the investors of the Group expose the Group to fair value interest risk.

As at 31 December 2021, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net loss for the year would have been RMB245,000 (2020: RMB212,000) higher/lower as a result of higher/lower interest expenses on floating rate borrowings.

The long-term receivables of the Group expose the Group to fair value interest risk. Please refer to Note 24 for the fair value of long-term receivables.

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

The preferred shares issued by the Company (before conversion into Class B ordinary shares), the preferred shares issued by a subsidiary and net asset value attributable to limited partners expose the Group to fair value interest rate risk. Please refer to Note 30 for the fair value of these investments.

(iii) Price risk

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

Sensitivity analysis is performed by management to assess the exposure of the Group's 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 the Group had been 5% higher/lower as at 31 December 2021, loss for the year would have been approximately RMB32,265,000 (2020: RMB49,595,000) lower/higher as a result of gains/losses on financial assets at FVPL.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, term deposits, structured deposits, as well as notes receivables, trade receivables and contract assets, other receivables, amount due from related party and preferred shareholders. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

Risk Management

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

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

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

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

Impairment of financial assets

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

- cash and cash equivalents, restricted cash, term deposits and structured deposits;
- trade receivables and contract assets (including notes receivables and long-term receivables);
- amount due from preferred shareholders (before settlement); and
- other receivables.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

(i) Cash and cash equivalents, restricted cash, term deposits and structured deposits

To manage risk arising from cash and cash equivalents, restricted cash, term deposits and structured deposits, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. Cash and cash equivalents, restricted cash and term deposits are also subject to the impairment requirements of IFRS 9, while the identified impairment loss was immaterial.

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

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

The expected loss rates are based on the credit rating of counter parties and the payment profiles of sales over a period of each reporting period and probability of default of counter parties on an ongoing basis throughout each reporting period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product ("GDP") to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Details of the analysis refer to Note 23 for trade receivables (including notes receivables), Note 5(f) for contract assets and Note 24 for long-term receivables.

(iii) Amount due from preferred shareholders (before settlement)

The main credit risk on amount due from preferred shareholders is limited because the counterparties are professional institutional investors with high credit-ratings and are measured as 12-month expected credit loss. All the amounts have been received during the year ended 31 December 2021.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

(iv) Other receivables

Other receivables mainly include refundable deposits, other receivables from third parties and payments on behalf of customers and others. All of the Group's financial assets at amortised cost are measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition as described in Note 23.

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

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

The movement of loss allowance for trade receivables and contract assets (including long term receivables and notes receivables), amount due form preferred shareholders and other receivables during the year ended 31 December 2021 are as below:

	Trade receivables and contract assets (including notes receivables and long-term receivables) RMB'000	Amount due from preferred shareholders RMB'000	Other receivables RMB'000	Total RMB'000
As at 1 January 2021	**(648,148)**	**(15,129)**	**(244,903)**	**(908,180)**
(Increase)/decrease in loss allowance recognised in profit or loss during the year	**(427,723)**	**15,129**	**(105,014)**	**(517,608)**
Receivables written off during the year as uncollectible	**20,018**	**–**	**–**	**20,018**
Currency translation differences	**1,197**	**–**	**302**	**1,499**
As at 31 December 2021	**(1,054,656)**	**–**	**(349,615)**	**(1,404,271)**
As at 1 January 2020	(224,193)	(2,372)	(164,345)	(390,910)
Increase in loss allowance recognised in profit or loss during the year	(428,731)	(12,757)	(80,558)	(522,046)
Receivables written off during the year as uncollectible	4,776	–	–	4,776
As at 31 December 2020	(648,148)	(15,129)	(244,903)	(908,180)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2021					
Borrowings	**13,796**	**13,796**	**75,390**	**331,911**	**434,893**
Lease liabilities	**159,752**	**134,269**	**83,826**	**12,038**	**389,885**
Long-term payables	**–**	**35,398**	**12,000**	**–**	**47,398**
Financial liabilities included in trade and other payables and others	**1,692,057**	**–**	**–**	**–**	**1,692,057**
Put option liability	**–**	**–**	**255,028**	**–**	**255,028**
	1,865,605	**183,463**	**426,244**	**343,949**	**2,819,261**
At 31 December 2020					
Borrowings	615,000	44,272	161,585	309,392	1,130,249
Lease liabilities	117,791	106,206	81,651	–	305,648
Long-term payables	–	35,398	35,398	–	70,796
Financial liabilities included in trade and other payables	1,246,216	–	–	–	1,246,216
Amount due to preferred shareholders	5,206,029	–	–	–	5,206,029
Put option liability	–	–	260,996	–	260,996
	7,185,036	185,876	539,630	309,392	8,219,934

Details of the description of preferred share and other financial liabilities are presented in Note 30.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

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

The Group monitors capital (including share capital and other reserves) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group. As at 31 December 2021, the net cash to equity ratio was 46%.

3.3 Fair value estimation

(a) Fair value hierarchy

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

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
As at 31 December 2021				
Assets:				
– Financial assets at FVPL	**431,917**	**–**	**4,151,602**	**4,583,519**
Liabilities:				
– Preferred share liabilities	**–**	**–**	**988,234**	**988,234**
– Other financial liabilities	**–**	**–**	**84,349**	**84,349**
	–	**–**	**1,072,583**	**1,072,583**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2020				
Assets:				
– Financial assets at FVPL	783,216	–	2,955,352	3,738,568
Liabilities:				
– Preferred share liabilities	–	–	50,185,657	50,185,657
– Other financial liabilities	–	–	14,005	14,005
	–	–	50,199,662	50,199,662

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

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

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

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

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

(b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

The fair value of trade and other receivables, amount due from preferred shareholders (before settlement), term deposits, restricted cash, and cash and cash equivalents approximated to their carrying amounts. The fair value of long-term receivables was disclosed in Note 24.

The fair value of trade and other payables, current borrowings, amount due to preferred shareholders (before settlement) approximated to their carrying amounts. The fair value of non-current borrowings was disclosed in Note 36.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

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

The following table presents the changes in level 3 items including current and non-current financial assets at fair value through profit or loss for the year ended 31 December 2021:

	Financial assets at FVPL RMB'000
At 1 January 2021	**2,955,352**
Acquisitions	**16,715,764**
Disposals	**(15,267,290)**
Transfer from Level 3 to Level 1	**(193,341)**
Fair value changes	**(7,342)**
Foreign currency translation recorded in other comprehensive income	**(51,541)**
At 31 December 2021	**4,151,602**
At 1 January 2020	2,854,212
Acquisitions	7,086,848
Disposals	(6,968,661)
Fair value changes	196,944
Interest received	(63,234)
Foreign currency translation recorded in other comprehensive income	(150,757)
At 31 December 2020	2,955,352

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

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

The changes of preferred share liabilities and other financial liabilities for the year ended 31 December 2021 have been presented in Note 30.

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

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

At 31 December 2021

Description	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Debt instruments – Unlisted debt investments	Expected volatility	39.86%-56.4%	The higher the expected volatility, the lower the fair value
	Risk-free rate	0.39%-2.66%	The higher the risk-free rate, the lower the fair value
	DLOM	30.0%	The higher the DLOM, the lower the fair value
Structured deposits	Expected rate of return	2.59%-2.90%	The higher the expected rate of return, the higher the fair value
Preferred shares issued by a subsidiary	Expected volatility	49.58%	The higher the expected volatility, the lower the fair value
	Risk-free rate	0.90%	The higher the risk-free rate, the lower the fair value

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

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

At 31 December 2020

Description	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Debt instruments – Unlisted debt investments	Expected volatility	41.0%-52.8%	The higher the expected volatility, the lower the fair value
	Risk-free rate	0.1%-2.9%	The higher the risk-free rate, the lower the fair value
	DLOM	30.0%	The higher the DLOM, the lower the fair value
Equity instruments – Unlisted equity investments	DLOM	30.0%	The higher the DLOM, the lower the fair value
Preferred shares issued by the Company and other financial liabilities	Expected volatility	46.1%	The higher the expected volatility, the lower the fair value
	Discount rate	18.0%	The higher the discount rate, the lower the fair value
	DLOM	10.7%	The higher the DLOM, the lower the fair value

If the fair values of the investments in debt and equity instruments measured at fair value through profit or loss held by the Group had been 10% lower/higher, the loss before income tax for the year ended 31 December 2021 would have been approximately RMB431,097,000 (2020: RMB390,466,000) higher/lower.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Impairment assessment of financial assets measured at amortised cost

The impairment provisions for trade and other receivables, contract assets and long-term receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b). Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated income statement.

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

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

4.3 Fair value of preferred shares liabilities and other financial liabilities

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.4 Share-based compensation expenses

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

4.5 Current and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

5 SEGMENT INFORMATION

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

(a) Revenue by geographical

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in four principal geographical areas of the world. The following table shows the Group's total consolidated revenue by location of the customers for the year ended 31 December 2021:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Mainland China	**4,147,620**	2,684,040
Northeast Asia	**365,759**	443,692
Southeast Asia	**56,944**	192,194
Others*	**129,940**	126,239
	4,700,263	3,446,165

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

(b) Non-current assets by geographical

The total of the non-current assets including property, plant and equipment, right-of-use assets and intangible assets as at 31 December 2021, broken down by the location of the assets, is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Mainland China	**3,310,770**	2,187,159
Northeast Asia	**74,633**	60,151
Southeast Asia	**62,392**	31,696
Others	**118,218**	71,453
	3,566,013	2,350,459

5 SEGMENT INFORMATION (CONTINUED)

(c) Information about major customers

The major customers which contributed more than 10% of total revenue of the Group for the year ended 31 December 2021 are listed as below:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Percentage of revenue from the major customers to the total revenue of the Group		
Customer A	**11.68%**	*
Customer B	**10.73%**	11.94%

* represents that the amount of aggregate revenue from such customer is less than 10% of the total revenue for the year.

(d) Disaggregation of revenue

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

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Revenue		
– recognised point in time	**4,364,889**	3,158,469
– recognised over time	**335,374**	287,696
	4,700,263	3,446,165

During the year ended 31 December 2021, the Group determines revenue should be reported on a gross or net basis based on principal/agent assessment (Note 2.26(vi)). Disaggregation of revenue on a gross or a net basis is as follow:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Revenue		
– gross	**4,699,663**	3,390,505
– net	**600**	55,660
	4,700,263	3,446,165

5 SEGMENT INFORMATION (CONTINUED)

(e) Contract assets

(i) The Group has recognised the following contract assets with customers:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current assets	**25,965**	23,560
Loss allowance	**(6,942)**	(1,096)
	19,023	22,464
Non-current assets	**21,306**	4,280
Loss allowance	**(971)**	(1,551)
	20,335	2,729
	39,358	25,193

The following table shows how much of the revenue, which was included in the contract liability balance at the beginning of the year, recognised during the year ended 31 December 2021 relates to carried-forward contract liabilities.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue recognised that were included in the contract liabilities at the beginning of the year	**202,385**	110,858

(ii) Unsatisfied performance obligations

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied	**37,550**	9,341

5 SEGMENT INFORMATION (CONTINUED)

(e) Contract assets (continued)

(ii) Unsatisfied performance obligations (continued)

Management expects that 29% (2020: 33%) of the transaction price allocated to unsatisfied performance obligations as of 31 December 2021 will be recognised as revenue during the next year. The remaining 71% (2020: 67%) will be recognised over one year. The amount disclosed above does not include variable consideration which is constrained.

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

6 EXPENSES BY NATURE

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Employee benefit expenses (Note 7)	**4,577,655**	2,962,482
Hardware costs and project subcontracting service fees	**1,265,429**	909,491
Depreciation and amortisation (Note 16, Note 17 and Note 18)	**657,830**	569,652
Professional service and other consulting fees	**659,612**	575,098
Marketing, conference and travelling expenses	**183,710**	139,390
Server operation and cloud-based service fees	**201,730**	149,776
Data labelling fees	**53,362**	59,195
Utilities, property management and administrative expenses	**105,525**	110,408
Research and development tools and consumables	**52,140**	29,543
Auditor's remuneration		
– Audit services	**11,626**	4,445
– Non-audit services	**4,230**	–
Listing expenses	**134,579**	–
Other expenses	**109,283**	84,515
	8,016,711	5,593,995

7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	**2,544,178**	1,821,342
Contributions to pension plans (a)	**185,143**	80,882
Housing fund, medical insurance and other social insurance	**264,409**	173,215
Share-based compensation expenses (Note 31(d))	**1,583,925**	887,043
	4,577,655	2,962,482

(a) Pensions – defined contribution plans

As stipulated by rules and regulations in mainland China, the Group has participated in state-sponsored defined contribution retirement plans for its employees in mainland China. The Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees. During the year ended 31 December 2021, the Group contributed approximately RMB179,733,000 (2020: RMB77,838,000) to the aforesaid state-sponsored retirement plans.

As stipulated by rules and regulations in other countries and regions, during the year ended 31 December 2021, the Group contributed approximately RMB5,410,000 (2020: RMB3,044,000) to the social insurance scheme of those countries and regions.

During the year ended 31 December 2021, there were no forfeited defined contribution to offset existing contribution under the defined contribution schemes (2020: nil).

7 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three (2020: three) directors during the year ended 31 December 2021. The emoluments payable to the remaining two (2020: two) individuals during the year are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	**13,046**	7,736
Pension, housing fund, medical insurance and other social insurance	**33**	79
Other social security costs, housing benefits and other employee benefits	**–**	43
Share-based compensation expenses	**24,021**	49,293
	37,100	57,151

(c) The emoluments fell within the following bands:

	Number of individuals	
	2021	2020
Emoluments bands:		
HKD22,000,001 to HKD22,500,000	**1**	–
HKD22,500,001 to HKD23,000,000	**1**	–
HKD29,500,001 to HKD30,000,000	**–**	1
HKD34,000,001 to HKD34,500,000	**–**	1

No directors or any of the five highest paid employees of the Company waived any emolument during the years ended 31 December 2021 and 2020. No emoluments were paid by the Group to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during both years.

8 OTHER INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants		
– Financial subsidies (i)	**344,453**	322,784
– Tax refund (ii)	**153,673**	30,000
Dividend received	**6,154**	–
	504,280	352,784

(i) Governments grants received during the year primarily comprised the financial subsidies received from various local government authorities in the mainland China, Hong Kong China and other regions. There are no unfulfilled conditions or contingencies relating to these incomes.

(ii) During the year ended 31 December 2021, the Group sold self-developed software products to its customers. The value-added taxes ("VAT") was collected at a tax rate of 13% starting from April 2019 (16% from May 2018 to March 2019) and the refund-upon-collection policy was applied to self-developed software products which is typically the portion of VAT actually paid that exceeds 3% of the revenue. The Group recorded the refunded VAT as "other income" when it obtained approvals from the local tax authorities and received the refunds.

9 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Fair value (losses)/gains on financial assets at fair value through profit or loss (Note 26(d))	**(514,661)**	170,711
Fair value losses on foreign exchange forward contracts	**–**	(72,666)
Realisation of gains from downstream transactions from associates (Note 12)	**151**	151
Donations (i)	**(8,909)**	(3,657)
Net foreign exchange gains	**132,435**	407,520
Losses on disposal of property, plant and equipment	**(5,189)**	(1,609)
Others	**(3,785)**	4,864
	(399,958)	505,314

(i) Donations represented the donations mainly made to certain colleges, universities and charity funds in mainland China and Hong Kong China during the year ended 31 December 2021.

10 FINANCE INCOME – NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income	**174,183**	171,991
Accretion income for long-term receivables	**13,533**	2,911
Finance income	**187,716**	174,902
Finance costs		
Interest expenses on bank borrowings	**(18,919)**	(95,679)
Interest expenses for long-term payables	**(3,089)**	–
Interest and finance charges paid/payable for lease liabilities (Note 17)	**(13,841)**	(16,830)
	(35,849)	(112,509)
Amount capitalised (a)	**2,091**	–
Finance costs expensed	**(33,758)**	(112,509)
Finance income – net	**153,958**	62,393

(a) The capitalisation rate used to determine the amount of borrowing costs to be capitalised is 4.10% (2020: nil).

11 SUBSIDIARIES

The Company's principal subsidiaries (including Consolidated Affiliated Entities) during the year ended 31 December 2021 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country/region of incorporation or registration is also their principal place of business.

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

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company:						
SenseTime MEA Ltd. (formerly named "SenseWonder Technology Limited")	**51%**	–	27 August 2021	USD51	Holding company in Cayman Islands	Cayman Islands, limited liability company
SensePower Management Limited	**100%**	100%	26 September 2017	USD5,000,001	Holding company in BVI	BVI, limited liability company
SenseCore Investment Limited	**100%**	100%	21 March 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseView Investment Limited	**100%**	100%	21 March 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseGame Investment Limited	**100%**	100%	11 April 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseChannel Investment Limited	**100%**	100%	5 July 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseAisle Investment Limited	**100%**	100%	5 July 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseFast Investment Limited	**100%**	100%	17 September 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseSpeedy Investment Limited	**100%**	100%	17 September 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseCross Investment Limited	**100%**	100%	26 September 2018	Nil paid	Holding company in BVI	BVI, limited liability company
SenseMoutain Management Limited (i)	**-**	100%	29 April 2019	Nil paid	Holding company in BVI	BVI, limited liability company
SenseMotion Investment Limited (i)	**-**	100%	29 April 2019	Nil paid	Holding company in BVI	BVI, limited liability company
SenseRobot Management L.P. (i)	**-**	100%	30 April 2019	Nil paid	Holding company in BVI	BVI, limited liability company
SenseBrave Investment Limited	**100%**	100%	02 October 2019	Nil paid	Holding company in BVI	BVI, limited liability company
SenseBright Investment Limited	**100%**	100%	02 October 2019	Nil paid	Holding company in BVI	BVI, limited liability company
SenseNature Investment Limited	**100%**	100%	02 October 2019	Nil paid	Holding company in BVI	BVI, limited liability company
SenseTime Technology Malaysia Sdn. Bhd.	**100%**	100%	17 December 2019	MYR2,000,000	Holding company in Malaysia	Malaysia, limited liability company
SenseTime KSA Information Systems Technology	**100%**	100%	13 November 2019	Nil paid	Holding company in Saudi Arabia	Saudi Arabia, limited liability company
SenseBrain Technology Limited	**100%**	100%	14 March 2018	USD900,000	Operation Entity in USA	USA, limited liability company

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
SenseTime International Pte. Ltd.	**100%**	100%	17 January 2018	USD78,100,000	Sales of software products and provision of related services in Singapore	Singapore, limited liability company
SenseTime Singapore Management Pte. Ltd.	**100%**	100%	21 December 2018	USD50,000	Holding company in Singapore	Singapore, limited liability company
Tetras.AI Singapore Pte. Ltd. (formerly named "Sensescene Singapore Technology Pte. Ltd.")	**55%**	55%	14 March 2019	USD40,275,000	Operation Entity in Singapore	Singapore, limited liability company
Tetras.AI Hong Kong Co., Limited (formerly named "Sensescene Technology HongKong Co., Limited")	**55%**	55%	08 April 2019	USD34,320,000	Operation Entity in Hong Kong	Hong Kong, limited liability company
SenseTime Macau Technology Limited	**100%**	100%	14 October 2020	MOP1,000,000	Operation Entity in Macau	Macau, limited liability company
SenseTime Investment Limited	**100%**	–	27 October 2017	HKD1	Operation Entity in Hong Kong	Hong Kong, limited liability company
PowerTensors Technology Limited	**100%**	100%	24 February 2020	Nil paid	Holding company in Hong Kong	Hong Kong, limited liability company
SenseTime Korea Technology Ltd.	**100%**	–	28 April 2021	KRW273,000,000	Operation Entity in Korea	Korea, limited liability company
Tetras.AI Korea Ltd.	**55%**	55%	21 October 2020	KRW440,000,000	JV Company in Korea	Korea, limited liability company
Kabushiki Kaisha SenseTime Japan ("SenseTime Japan")	**100%**	100%	13 January 2016	JPY8,000,000	Sales of software products and provision of related services in Japan	Japan, limited liability company
Kabushiki Kaisha SenseTime EastAsia Holding	**100%**	100%	14 December 2018	JPY12,000,000	Holding company in Japan	Japan, limited liability company
SenseTime Middle East Technology Limited	**100%**	100%	24 October 2019	Nil paid	Holding company in Abu Dhabi	Abu Dhabi, limited liability company
SenseTime Technology FZ-LLC	**100%**	100%	9 April 2019	AED50,000	Holding company in Dubai	Dubai, limited liability company

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Shenzhen Tetras.AI Technology Co., Ltd. (深圳市慧鯉科技有限公司, formerly named 深圳市商湯智能傳感科技有限公司, "Tetras.AI Shenzhen")	**55%**	55%	11 July 2019	USD30,000,000	Development and sale of AI sensor technology and system integration technology in PRC	PRC, wholly foreign owned enterprise
Beijing SenseTime Technology Development Co., Ltd. (北京市商湯科技開發有限公司, "Beijing SenseTime")	**100%**	100%	14 November 2014	RMB648,826,296	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shenzhen SenseTime Technology Co., Ltd. (深圳市商湯科技有限公司, "Shenzhen SenseTime")	**100%**	100%	15 May 2015	RMB1,100,000,000	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Zhejiang SenseTime Technology Development Co., Ltd. (浙江商湯科技開發有限公司)	**100%**	100%	31 August 2017	RMB225,000,000	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
SenseTime Jutong Technology Development (Hangzhou) Co., Ltd. (商湯炬瞳科技開發(杭州)有限公司)	**100%**	100%	21 August 2017	RMB53,000,000	Development of software products and provision of related services in PRC	PRC, limited liability company
Tibet SenseTime Venture Capital Management Co., Ltd. (西藏商湯創業投資管理有限責任公司)	**100%**	100%	31 August 2017	RMB23,101,000	Investment holdings and management in PRC	PRC, limited liability company
Shenzhen StarAds Technology Co., Ltd. (深圳市星廣互動科技有限公司, "StarAds") (ii)	**46%**	46%	24 July 2017	RMB12,880,000	Development of software products and provision of related services in PRC	PRC, joint venture between foreign invested enterprise and domestic company
Linkface Technology Limited	**100%**	100%	12 November 2015	Nil paid	Development of software products and provision of related services in Hong Kong	Hong Kong, Limited liability company
Shanghai Jutong Software Development Co., Ltd. (上海炬瞳軟件開發有限公司)	**100%**	100%	7 February 2017	Nil paid	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Shanghai SenseTime Intelligent Technology Co., Ltd. (上海商湯智能科技有限公司, "Shanghai SenseTime")	100%	100%	15 December 2017	RMB7,746,799,578	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangyun Software Co., Ltd. (寧波市商蘊軟件有限公司)	100%	100%	27 December 2017	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangsheng Software Co., Ltd. (寧波市商升軟件有限公司)	100%	100%	31 January 2018	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangyi Software Co., Ltd. (寧波市商毅軟件有限公司)	100%	100%	18 January 2018	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shanglian Software Co., Ltd. (寧波市商連軟件有限公司)	100%	100%	18 January 2018	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangrui Software Co., Ltd. (寧波市商睿軟件有限公司)	100%	100%	12 November 2018	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangchen Software Co., Ltd. (寧波市商琛軟件有限公司)	100%	100%	12 November 2018	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shanghao Software Co., Ltd. (寧波市商灝軟件有限公司)	100%	100%	12 November 2018	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Hangzhou Shanggu Enterprise Management Limited (杭州商穀企業管理有限公司)	100%	100%	7 June 2018	RMB27,000,000	Management consulting in PRC	PRC, limited liability company
Chengdu SenseTime Technology Co., Ltd. (成都商湯科技有限公司)	100%	100%	13 June 2018	RMB229,636,420	Sales of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Shanghai SenseTime Lingang Intelligent Technology Co., Ltd. (上海商湯臨港智能科技有限公司, formerly named 上海商湯視覺科技有限公司, "SenseTime Lingang")	100%	100%	11 July 2018	RMB995,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Chongqing SenseTime Technology Co., Ltd. (重慶商湯科技有限公司)	100%	100%	18 October 2018	RMB4,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shanghai SenseTime Information Technology Co., Ltd. (上海商湯信息科技有限公司)	100%	100%	18 December 2018	RMB13,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shanghai Notahulu Information Technology Co., Ltd. (上海兩個瓢信息科技有限公司, formerly named上海阡揚信息科技有限公司, "Shanghai Notahulu")	100%	100%	25 February 2019	RMB10,500,000	Information transportation, software and information services in PRC	PRC, wholly foreign owned enterprise
Shanghai Yuqin Information Technology Co., Ltd. (上海煜芩信息科技有限公司, "Shanghai Yuqin")	100%	100%	20 March 2019	RMB1,236,500,000	Information transportation, software and information services in PRC	PRC, wholly foreign owned enterprise
Shanghai SenseTime Education Technology Co., Ltd. (上海商湯教育科技有限公司)	100%	100%	5 September 2019	RMB50,000	Education in PRC	PRC, wholly foreign owned enterprise
SenseTime Dongnan (Fujian) Technology Co., Ltd. (商湯東南(福建)科技有限公司)	51%	51%	19 April 2019	RMB20,000,000	Wholesale and retail in PRC	PRC, joint venture between foreign invested enterprise and domestic company
Ningbo Shangheng Software Co., Ltd. (寧波市商珩軟件有限公司)	100%	100%	24 December 2018	Nil paid	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangyill Software Co., Ltd. (寧波市商懿軟件有限公司)	100%	100%	24 December 2018	Nil paid	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Ningbo Shangyong Software Co., Ltd (寧波市商雍軟件有限公司)	**100%**	100%	24 December 2018	Nil paid	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangmin Software Co., Ltd (寧波市商旻軟件有限公司)	**100%**	100%	24 December 2018	RMB5,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangqia Software Co., Ltd (寧波市商洽軟件有限公司)	**100%**	100%	24 December 2018	Nil paid	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Qianshi Enterprise Management Partners LP (寧波阡誓企業管理合夥企業(有限合夥))	**100%**	100%	11 April 2019	Nil paid	Leasing and business services in PRC	PRC, limited partnership
Qingdao SenseTime Technology Co., Ltd. (青島商湯科技有限公司)	**100%**	100%	29 November 2019	USD40,000,000	Sales of software products and provision of related services in PRC	PRC, joint venture between foreign invested enterprise and domestic company
Hainan SenseTime Technology Co., Ltd. (海南商湯科技有限公司)	**100%**	100%	29 November 2019	RMB33,000,000	Sales of software products and provision of related services in PRC	PRC, joint venture between foreign invested enterprise and domestic company
SenseTime Artificial Intelligent Research Center (商湯人工智能研究中心(深圳)有限公司)	**100%**	100%	9 January 2020	RMB8,000,000	Research and development of AI technology in PRC	PRC, limited liability company
Shanghai SenseTime Technology Development Co., Ltd. (上海商湯科技開發有限公司, "Shanghai Development") (iii)	**100%**	100%	16 January 2020	RMB1,286,000,000	Development of computer vision technology and provision of related services in PRC	PRC, limited liability company
Jiangsu Nanjing SenseTime Intelligent Technology Co., Ltd. (江蘇南京商湯智能科技有限公司)	**100%**	100%	16 March 2020	RMB20,000,000	Provision of system integration services and software development services in PRC	PRC, limited liability company

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Shanghai PowerTensors Intelligent Technology Co., Ltd. (上海陣量智能科技有限公司)	100%	100%	6 May 2020	USD18,700,000	Provision of AI technology consulting services and IC design services in PRC	PRC, wholly foreign owned enterprise
Shanghai MobileTime Technology Co., Ltd. (上海眸正科技有限公司)	100%	100%	24 December 2018	RMB905,000,000	Development of software products and provision of related services in PRC	PRC, wholly foreign owned enterprise
Shanghai Qianlun Technology Co., Ltd. (上海阡倫科技有限公司) (iii)	100%	100%	17 September 2020	Nil paid	Provision of AI technology consulting services and IC design services in PRC	PRC, limited liability company
Xi'an SenseTime Intelligent Technology Co., Ltd. (西安商湯智能科技有限公司)	100%	100%	22 September 2020	RMB100,000,000	Development of AI platform and provision and sale of software and hardware in PRC	PRC, wholly foreign owned enterprise
Beijing Chengtang Consulting Management Co., Ltd. (北京成唐諮詢管理有限公司) (iii)	100%	–	26 May 2021	RMB10,000,000	Management consulting in PRC	PRC, limited liability company
Beijing Guoxiang Shangheng Equity Investment Fund Partnership (limited partnership) (北京國香商恒股權投資基金合夥企業(有限合夥))	64%	–	11 August 2021	RMB401,000,000	Private equity investments in PRC	PRC, limited partnership
Beijing YHD Culture Co., Ltd. (北京羊很大文化有限公司)	100%	–	2 November 2021	Nil paid	Sales of cultural products in PRC	PRC, wholly foreign owned enterprise
Shenzhen YHD International Trade Co., Ltd. (深圳羊很大國際貿易有限公司)	100%	–	26 August 2021	Nil paid	Sales of cultural products in PRC	PRC, limited liability company
Nanchong SenseTime Technology Co., Ltd. (南充商湯科技有限公司)	100%	–	29 November 2021	Nil paid	Sales of software products and provision of related services in PRC	PRC, joint venture between foreign invested enterprise and domestic company
Ningbo Shangjin Software Co., Ltd. (寧波市商錦軟件有限公司)	100%	100%	4 December 2020	RMB2,000	Development and sale of software, provision of related services in PRC	PRC, wholly foreign owned enterprise

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Ningbo Shanglun Software Co., Ltd. (寧波市商倫軟件有限公司)	**100%**	100%	18 December 2020	RMB2,000	Development and sale of software, provision of related services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangone Software Co., Ltd. (寧波市商壹軟件有限公司)	**100%**	100%	18 December 2020	Nil paid	Development and provision of technology support services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangyu Software Co., Ltd. (寧波市商彧軟件有限公司)	**100%**	100%	18 December 2020	RMB2,000	Development and provision of technology support services in PRC	PRC, wholly foreign owned enterprise
Ningbo Shangzhi Software Co., Ltd. (寧波市商摯軟件有限公司)	**100%**	100%	18 December 2020	Nil paid	Development and sale of software, provision of related services in PRC	PRC, wholly foreign owned enterprise
Hefei SenseTime Intelligent Technology Co., Ltd. (合肥商湯智能科技有限公司)	**100%**	–	9 March 2021	RMB1,000,000	Provision of system integration services and software development services in PRC	PRC, wholly foreign owned enterprise
Shanghai Guoxiang Equity Investment Management Co., Ltd. (上海國香股權投資管理有限公司)	**100%**	100%	8 February 2018	RMB30,000,000	Investment holdings and management in PRC	PRC, wholly foreign owned enterprise
Shanghai Guoxiang Goodwill Investment Management Co., Ltd. (上海國香商譽投資管理有限公司)	**100%**	100%	8 April 2018	RMB55,000,000	Investment holdings and management in PRC	PRC, limited liability company
Shenzhen SenseTime Intelligent Technology Co., Ltd. (深圳商湯智能科技有限公司)	**100%**	–	26 April 2021	RMB2,010,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Beijing Sweet SugARSoft Technology Co., Ltd. (北京大甜綿白糖科技有限公司)	**100%**	–	26 April 2021	RMB5,000,000	Development and sale of software, provision of related services in PRC	PRC, wholly foreign owned enterprise

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Shanghai Trisolaran Intelligent Technology Co., Ltd. (上海三體星人智能科技有限公司)	100%	–	19 May 2021	RMB1,010,000	Provision of advertisement publishing services, development of computer technology and digital culture creativity in PRC	PRC, limited liability company
Minghan Intelligence (Shenzhen) Co., Ltd. (銘翰智能(深圳)有限責任公司)	100%	100%	29 October 2018	RMB1,000,000	Provision of system integration services and software development services in PRC	PRC, limited liability company
Shenzhen Huizhichuangsheng Technology Co., Ltd. (深圳市匯智創盛科技有限公司)	100%	–	26 September 2016	RMB1,920,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company
Tianjin Guoxiang Venture Capital Fund Partnership (limited partnership) (天津國香創業投資基金合夥企業(有限合夥), "Tianjin Guoxiang")	50%	50%	25 March 2019	RMB95,000,000	Private equity investments in PRC	PRC, limited partnership
Nantong SenseTime Technology Co., Ltd. (南通商湯科技有限公司)	100%	100%	17 December 2020	USD30,000,000	Provision of system integration services and software development services in PRC	PRC, wholly foreign owned enterprise
Beijing Guoxiang Shangheng Fund Management Co., Ltd. (北京國香商恒私募基金管理有限公司)	100%	–	31 May 2021	RMB10,000,000	Private equity investments in PRC	PRC, limited liability company
Xin'an Intelligent Data Technology (Hebei) Co., Ltd. (信安智能數據(河北)有限公司)	100%	–	11 June 2021	Nil paid	Provision of system integration services and software development services in PRC	PRC, limited liability company

11 SUBSIDIARIES (CONTINUED)

Name of entity	Effective interest held In terms of % As at 31 December 2021	2020	Date of establishment/ incorporation	Issued capital/ paid in capital	Principal activities and place of operation	Place of incorporation and type of legal entity
Indirectly held by the Company: (continued)						
Shenzhen Guoxiang Zhengxin Investment Partnership (Limited Partnership) (深圳國香正信投資合夥企業(有限合夥))	100%	–	21 June 2021	RMB200,000,000	Private equity investments in PRC	PRC, limited partnership
Beijing SugARSoft Intelligent Technology Co., Ltd. (北京綿白糖智能科技有限公司, "Beijing SugARSoft")	100%	–	2 November 2020	RMB500,000	Development and sale of software, provision of related services in PRC	PRC, limited liability company

* represents that the amount is less than USD1.

(i) These companies were fully disposed in 2021.

(ii) Based on the majority voting rights stipulated on the association of StarAds, it was accounted as a subsidiary due to 3 out of 5 directors of StarAds were appointed by the Group, and all the key decisions related to StarAds's relevant activities are decided by simple majority of the directors.

(iii) These companies were controlled by the Group through Contractual Arrangement.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Associates	**22,490**	64,247
Joint ventures	**4,440**	6,078
	26,930	70,325

The movements for investments in associates and joint ventures during the year ended 31 December 2021 are as below:

	Associates	**Joint ventures**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2021	**64,247**	**6,078**	**70,325**
Additions	**1,000**	**–**	**1,000**
Share of loss	**(38,651)**	**(1,580)**	**(40,231)**
Impairment loss	**(4,257)**	**–**	**(4,257)**
Realisation of unrealised profit	**151**	**–**	**151**
Currency translation differences	**–**	**(58)**	**(58)**
At 31 December 2021	**22,490**	**4,440**	**26,930**
At 1 January 2020	50,870	8,268	59,138
Additions	17,500	–	17,500
Share of loss	(4,274)	(1,781)	(6,055)
Realisation of unrealised profit	151	–	151
Currency translation differences	–	(409)	(409)
At 31 December 2020	64,247	6,078	70,325

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

The Company engaged an independent valuer to provide assistance in its impairment assessment for the major associates and joint ventures whilst the remaining entities were still in their early stage with insignificant expenditure incurred. Based on the assessment, impairment provision of RMB4,257,000 was provided for some associates which experienced significant financial difficulties as at 31 December 2021 (31 December 2020: nil).

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

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

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

The aggregated carrying amount of these individually immaterial associates and joint ventures and the Group's shares during the year ended 31 December 2021 are as below:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Aggregate carrying amount of associates	**22,490**	64,247
Aggregate amounts of the Group's share of loss from operations	**(38,651)**	(4,274)
Aggregate carrying amount of joint ventures	**4,440**	6,078
Aggregate amounts of the Group's share of loss from operations	**(1,580)**	(1,781)

13 INCOME TAX EXPENSE/(CREDIT)

(i) Cayman Islands

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

(ii) British Virgin Islands

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

(iii) Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the year ended 31 December 2021 (2020: 16.5%).

(iv) Singapore

Singapore income tax rate is 17%. A concessionary rate of 5% was granted by Singapore Economic Development Board for a period of 5 years starting from 1 January 2019 for income derived from qualifying activities. No Singapore profits tax was provided for as there was no estimated assessable profit that was subject to Singapore profits tax for the year ended 31 December 2021 (2020: 17%, 5%).

(v) Japan

Enterprises incorporated in Japan are subject to income tax rate at the state level of 23.2% for the year ended 31 December 2021 (2020: 23.2%).

13 INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

(vi) Malaysia

Malaysia income tax rate is 24% for the year ended 31 December 2021 (2020: 24%). In the case that the paid-up capital is Malaysian Ringgit ("MYR") 2.5 million or less, and the gross income from business is not more than MYR50 million, the income tax rate on the first MYR0.6 million chargeable income is 17% and the part in excess of MYR0.6 million is 24%.

(vii) PRC corporate income tax ("CIT")

The income tax provision of the Group in respect of its operations in the mainland China was subject to statutory tax rate of 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

Beijing SenseTime, Shenzhen SenseTime, Shanghai SenseTime and SenseTime Lingang were qualified as "High and New Technology Enterprises" ("HNTEs") under the relevant PRC laws and regulations. Accordingly, these entities were entitled to a preferential income tax rate of 15% in 2021. This status is subject to a requirement that Beijing SenseTime, Shenzhen SenseTime, Shanghai SenseTime and SenseTime Lingang reapply for HNTEs status every three year.

SenseTime Lingang, Shanghai Development, Tetras.AI Shenzhen and Shenzhen SenseTime were registered in such special zones and were entitled to a preferential income tax rate of 15% by the local government.

(viii) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

No deferred income tax liability on WHT was accrued as at the end of each reporting period because the subsidiaries of the Group were loss making in these years or periods.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax	**7,269**	26,036
Deferred income tax (Note 20)	**28,237**	(186,706)
Income tax expense/(credit)	**35,506**	(160,670)

13 INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

(viii) PRC Withholding Tax ("WHT") (continued)

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss before tax	**(17,141,544)**	(12,319,017)
Tax calculated at statutory tax rates applicable to each group entity	**(462,494)**	(256,288)
Tax effects of:		
Super deduction for research and development expenses (a)	**(188,591)**	(209,410)
Income not subject to tax	**(44,453)**	(94,461)
Associates and joint ventures' results reported net of tax	**6,408**	364
Expenses not deductible for tax purpose (b)	**275,399**	173,795
Changes in income tax rate as a result of qualifying for HNTEs (c)	**109,899**	–
Tax losses for which no deferred income tax asset was recognised (d)	**260,721**	158,462
Other temporary difference for which no deferred income tax asset was recognised	**46,927**	62,450
Accrued withholding tax	**6,244**	8,395
Under provision of income tax final settlement difference of previous year	**4,716**	706
Over provision of income tax final settlement difference of previous year	**(96)**	(4,773)
Utilisation of previously unrecognised tax losses and temporary differences	**–**	(216)
Reversal of previously recognised deferred tax assets for tax losses	**18,872**	442
Others	**1,954**	(136)
Tax expense/(credit)	**35,506**	(160,670)

13 INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

(viii) PRC Withholding Tax ("WHT") (continued)

(a) Super deduction for research and development expenses

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 ("Super Deduction").

(b) Expenses not deductible for tax purpose

Expenses not deductible for tax purpose include share base payment expenses, business entertainment expenses exceeding threshold, employee commercial insurance expenses, non-deductible donations etc.

(c) Changes in income tax rate as a result of qualifying for HNTEs

Shanghai SenseTime was qualified for HNTEs from 2021, accordingly, deferred tax assets arising from Shanghai SenseTime was recognized at a preferential income tax rate of 15%.

(d) Tax losses for which no deferred income tax assets was recognised

The Group only recognised deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2021, the Group did not recognise deferred income tax assets of RMB727,698,000 (2020: RMB471,308,000). The expiration dates of unused tax losses for which no deferred tax asset has been recognised are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
2022	**364**	364
2023	**8,162**	11,780
2024	**87,797**	87,797
2025	**177,775**	200,639
2026	**614,259**	65,372
2027	**49,395**	49,395
2028	**418,653**	416,029
2029	**963,974**	963,974
2030	**688,746**	688,746
2031	**571,523**	–
Indefinitely	**668,920**	471,282
	4,249,568	2,955,378

14 LOSS PER SHARE

Basic

The basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares (excluding treasury shares) issued during the year ended 31 December 2021:

	Year ended 31 December	
	2021	2020
Loss attributable to equity holders of the Company (RMB'000)	**(17,140,086)**	(12,158,193)
Weighted average number of ordinary shares in issue (thousand)	**9,871,265**	9,123,174
Basic loss per share (expressed in RMB per share)	**(1.74)**	(1.33)

Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has four categories of dilutive potential ordinary shares: preferred shares issued by the Company and a subsidiary of the Company, warrant liability, restricted share units ("RSUs") and share options. As the Group incurred losses for the year ended 31 December 2021, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the year ended 31 December 2021 is the same as basic loss per share (2020: same as basic loss per share).

15 DIVIDENDS

No dividend had been declared or paid by the Company during the year ended 31 December 2021 (2020: nil).

No final dividend has been recommended by the board for the year ended 31 December 2021.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Leasehold improvement RMB'000	Large-scale electronic equipment RMB'000	Computers and related equipment RMB'000	Office equipment and furniture RMB'000	Transportation equipment and vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2021									
Cost	961,217	197,328	869,086	341,562	41,677	27,140	4,819	132,364	2,575,193
Accumulated depreciation	(45,093)	(101,026)	(340,947)	(164,284)	(10,602)	(6,270)	(492)	–	(668,714)
Net book amount	916,124	96,302	528,139	177,278	31,075	20,870	4,327	132,364	1,906,479
Year ended 31 December 2021									
Opening net book amount	916,124	96,302	528,139	177,278	31,075	20,870	4,327	132,364	1,906,479
Additions	–	20,865	615,334	98,659	2,448	11,685	9,048	721,290	1,479,329
Internal transfer	15,334	14,128	262	6,064	471	6,041	4,920	(47,220)	–
Disposals	(137)	–	(3,977)	(8,895)	(212)	(93)	(277)	–	(13,591)
Depreciation charge	(44,720)	(64,120)	(221,655)	(110,795)	(5,026)	(8,885)	(1,873)	–	(457,074)
Currency translation differences	(2,005)	(190)	(489)	(1,485)	(1,013)	(120)	–	(578)	(5,880)
Closing net book amount	884,596	66,985	917,614	160,826	27,743	29,498	16,145	805,856	2,909,263
At 31 December 2021									
Cost	974,306	216,957	1,476,998	424,198	42,977	44,509	19,451	805,856	4,005,252
Accumulated depreciation	(89,710)	(149,972)	(559,384)	(263,372)	(15,234)	(15,011)	(3,306)	–	(1,095,989)
Net book amount	884,596	66,985	917,614	160,826	27,743	29,498	16,145	805,856	2,909,263
At 1 January 2020									
Cost	953,078	133,557	738,506	310,966	31,317	13,162	3,331	29,027	2,212,944
Accumulated depreciation	(104)	(46,036)	(189,401)	(77,500)	(4,156)	(1,620)	(208)	–	(319,025)
Net book amount	952,974	87,521	549,105	233,466	27,161	11,542	3,123	29,027	1,893,919
Year ended 31 December 2020									
Opening net book amount	952,974	87,521	549,105	233,466	27,161	11,542	3,123	29,027	1,893,919
Additions	3,953	28,761	137,871	48,760	11,875	13,450	1,676	143,694	390,040
Internal transfer	4,572	35,745	–	–	33	–	–	(40,350)	–
Disposals	(92)	–	(1,394)	(934)	(693)	(22)	(104)	–	(3,239)
Depreciation charge	(45,029)	(54,991)	(155,971)	(103,487)	(7,094)	(4,094)	(290)	–	(370,956)
Currency translation differences	(254)	(734)	(1,472)	(527)	(207)	(6)	(78)	(7)	(3,285)
Closing net book amount	916,124	96,302	528,139	177,278	31,075	20,870	4,327	132,364	1,906,479
At 31 December 2020									
Cost	961,217	197,328	869,086	341,562	41,677	27,140	4,819	132,364	2,575,193
Accumulated depreciation	(45,093)	(101,026)	(340,947)	(164,284)	(10,602)	(6,270)	(492)	–	(668,714)
Net book amount	916,124	96,302	528,139	177,278	31,075	20,870	4,327	132,364	1,906,479

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) As at 31 December 2021, certain buildings with carrying amount of RMB854,796,000 (31 December 2020: RMB899,661,000) were pledged as collaterals for the Group's borrowings (Note 36).

(b) During the year ended 31 December 2021, the amounts of depreciation expense charged to research and development expenses, administrative expenses and selling expenses are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Depreciation of property, plant and equipment		
– Research and development expenses	**307,357**	241,453
– Administrative expenses	**127,489**	113,853
– Selling expenses	**22,228**	15,650
Depreciation expenses charged to profit or loss	**457,074**	370,956

17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets includes leased buildings and land use rights.

(i) Amounts recognised in the consolidated balance sheets

The consolidated balance sheets show the following amounts relating to leases:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Right-of-use assets		
Leased buildings	**366,295**	268,725
Land use right (a)	**65,869**	67,223
	432,164	335,948
Lease liabilities		
Current	**155,495**	109,524
Non-current	**228,802**	184,113
	384,297	293,637

(a) As at 31 December 2021, certain land use rights with carrying amount of RMB65,869,000 (31 December 2020: nil) was pledged as collaterals for the Group's borrowings (Note 36).

17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets		
Leased buildings	**136,176**	140,562
Land use right	**1,353**	451
	137,529	141,013
Interest expense (included in finance income – net)	**13,841**	16,830

The total cash outflows for leases (including short-term leases not included in lease liabilities) for the year ended 31 December 2021 was RMB150,394,000 (2020: RMB145,091,000).

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

The Group leases various offices buildings and land use right. Rental contracts are typically made for fixed periods of 1 year to 50 years with no extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes, except for the land use rights pledged as collaterals for the Group's borrowings (Note 36).

17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(iv) The movement in right-of-use assets in the consolidated balance sheet are as follows:

	Leased buildings RMB'000	Land use right RMB'000	Total RMB'000
Year ended 31 December 2021			
Opening net book amount	**268,725**	**67,223**	**335,948**
Additions	**233,557**	**–**	**233,557**
Depreciation charge	**(136,176)**	**(1,353)**	**(137,529)**
Currency translation differences	**188**	**–**	**188**
Closing net book amount	**366,294**	**65,870**	**432,164**
As at 31 December 2021			
Cost	**841,576**	**67,674**	**909,250**
Accumulated depreciation	**(475,282)**	**(1,804)**	**(477,086)**
Net book amount	**366,294**	**65,870**	**432,164**
Year ended 31 December 2020			
Opening net book amount	404,228	–	404,228
Additions	50,803	67,674	118,477
Early termination	(12,976)	–	(12,976)
Modification of leasing contracts	(33,133)	–	(33,133)
Depreciation charge	(140,562)	(451)	(141,013)
Currency translation differences	365	–	365
Closing net book amount	268,725	67,223	335,948
As at 31 December 2020			
Cost	620,126	67,674	687,800
Accumulated depreciation	(351,401)	(451)	(351,852)
Net book amount	268,725	67,223	335,948

During the year ended 31 December 2021, the amounts of amortisation expense charged to research and development expenses, administrative expenses and selling expenses are as follows:

	Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
Administrative expenses	**136,173**	141,013
Research and development expenses	**1,356**	–
	137,529	141,013

18 INTANGIBLE ASSETS

	Patents RMB'000	Trademarks RMB'000	Computer software RMB'000	Licensed intellectual properties RMB'000	Total RMB'000
As at 1 January 2021					
Cost	**68,791**	**22**	**109,539**	**–**	**178,352**
Accumulated amortisation	**(35,329)**	**(12)**	**(34,979)**	**–**	**(70,320)**
Net book amount	**33,462**	**10**	**74,560**	**–**	**108,032**
Year ended 31 December 2021					
Opening net book amount	**33,462**	**10**	**74,560**	**–**	**108,032**
Additions (i)	**8**	**–**	**138,211**	**43,169**	**181,388**
Amortisation charge	**(15,192)**	**(2)**	**(46,235)**	**(1,798)**	**(63,227)**
Currency translation differences	**(569)**	**–**	**(1,038)**	**–**	**(1,607)**
Closing net book amount	**17,709**	**8**	**165,498**	**41,371**	**224,586**
As at 31 December 2021					
Cost	**67,191**	**22**	**246,048**	**43,169**	**356,430**
Accumulated amortisation	**(49,482)**	**(14)**	**(80,550)**	**(1,798)**	**(131,844)**
Net book amount	**17,709**	**8**	**165,498**	**41,371**	**224,586**
As at 1 January 2020					
Cost	82,806	23	84,508	–	167,337
Accumulated amortisation	(21,029)	(10)	(6,549)	–	(27,588)
Net book amount	61,777	13	77,959	–	139,749
Year ended 31 December 2020					
Opening net book amount	61,777	13	77,959	–	139,749
Additions	2,669	–	25,414	–	28,083
Amortization charge	(29,114)	(2)	(28,567)	–	(57,683)
Currency translation differences	(1,870)	(1)	(246)	–	(2,117)
Closing net book amount	33,462	10	74,560	–	108,032
As at 31 December 2020					
Cost	68,791	22	109,539	–	178,352
Accumulated amortisation	(35,329)	(12)	(34,979)	–	(70,320)
Net book amount	33,462	10	74,560	–	108,032

18 INTANGIBLE ASSETS (CONTINUED)

(i) In February 2021, Shanghai Notahulu, a wholly owned subsidiary of the Group, entered into an agreement with a culture development company (the "Licensor"). Pursuant to this agreement, Shanghai Notahulu was required to set up a subsidiary (the "Licensee") with a registered capital of RMB49,000,000 to acquire certain licensed intellectual properties from the Licensor. In addition, the Licensor was granted a warrant to acquire 30% equity interest with a cash consideration of RMB21,000,000 within 24 months from the date of the agreement. The consideration of the licensed intellectual properties included cash of RMB38,342,000 and the warrant granted to Licensor with a fair value of RMB4,827,000. The Group recognised the warrant as an equity instrument and recorded it as a non-controlling interest.

During the year ended 31 December 2021, the amounts of amortisation expense charged to research and development expenses, administrative expenses and selling expenses are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Research and development expenses	**51,944**	49,816
Administrative expenses	**10,547**	7,754
Selling expenses	**736**	113
	63,227	57,683

During the year ended 31 December 2021, no intangible assets have been impaired (2020: nil).

19 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Advance payment for purchase of property, plant and equipment and intangible assets	**167,138**	12,649
Others	**4,657**	56
	171,795	12,705

20 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**127,414**	198,087
– to be recovered after more than 12 months	**373,082**	292,750
Offset by deferred tax liabilities	**(43,297)**	(40,554)
Net deferred income tax assets	**457,199**	450,283
Deferred income tax liabilities:		
– to be recovered within 12 months	**–**	–
– to be recovered after more than 12 months	**(86,613)**	(48,162)
Offset by deferred income tax assets	**43,297**	40,554
Net deferred income tax liabilities	**(43,316)**	(7,608)

20 DEFERRED INCOME TAX (CONTINUED)

The gross movements on the deferred income tax account is as follows:

Deferred income tax assets	Tax losses carried forward RMB'000	Impairment provision on financial assets RMB'000	Unrealised profit RMB'000	Fair value changes on financial assets carried at FVPL RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	292,751	121,116	16,908	5,881	43,588	10,593	490,837
Credit/(charge) to the consolidated income statement	17,995	(5,981)	(4,681)	(4,489)	552	6,818	10,214
Currency translation differences	(555)	–	–	–	–	–	(555)
At 31 December 2021	310,191	115,135	12,227	1,392	44,140	17,411	500,496
At 1 January 2020	186,061	46,896	24,322	804	62,155	1,671	321,909
Credit/(charged) to the consolidated income statement	106,374	74,220	(7,414)	5,077	(18,567)	8,922	168,612
Currency translation differences	316	–	–	–	–	–	316
At 31 December 2020	292,751	121,116	16,908	5,881	43,588	10,593	490,837

Deferred income tax liabilities	Fair value changes on financial assets carried at FVPL RMB'000	Right-of-use assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	(7,608)	(40,065)	(489)	(48,162)
(Charged)/credit to the consolidated income statement	(35,683)	(3,232)	464	(38,451)
At 31 December 2021	(43,291)	(43,297)	(25)	(86,613)
At 1 January 2020	(5,516)	(60,355)	(385)	(66,256)
(Charged)/credit to the consolidated income statement	(2,092)	20,290	(104)	18,094
At 31 December 2020	(7,608)	(40,065)	(489)	(48,162)

21 INVENTORIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Purchased hardware and components	**308,326**	415,894
Contract fulfilment cost	**226,925**	336,191
	535,251	752,085
Less: allowance for impairment of inventories	**(39,107)**	(36,564)
	496,144	715,521

Inventories recognised as an expense during the year ended 31 December 2021 amounted to RMB1,180,980,000 (2020: RMB830,220,000). These were included in cost of sales and cost of providing services.

The provision for impairment of inventories recorded as cost of sales during the year ended 31 December 2021 were RMB36,960,000 (2020: RMB23,138,000).

22 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Financial assets:		
Financial assets at amortised cost:		
– Financial assets included in trade and other receivables and notes receivables (Note 23)	**5,511,552**	4,419,872
– Amount due from preferred shareholders (Note 25)	**–**	8,593,109
– Long-term receivables (Note 24)	**306,860**	127,502
– Restricted cash (Note 27)	**319**	493,364
– Term deposits (Note 27)	**4,990,791**	5,890,189
– Cash and cash equivalents (Note 27)	**16,529,506**	11,427,871
Financial assets at fair value through profit or loss (Note 26)	**4,583,519**	3,738,568
	31,922,547	34,690,475

22 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Financial liabilities:		
Financial liabilities at amortised cost:		
– Borrowings (Note 36)	**339,888**	1,016,561
– Lease liabilities (Note 17)	**384,297**	293,637
– Long-term payables (Note 32(b))	**44,955**	66,148
– Financial liabilities included in trade and other payables and others (Note 32)	**1,692,057**	1,246,216
– Amount due to preferred shareholders (Note 33)	**–**	5,206,029
– Put option liability (Note 35)	**255,028**	260,996
Financial liabilities at fair value through profit or loss:		
– Preferred share liabilities (Note 30(a), (b))	**988,234**	50,185,657
– Other financial liabilities (Note 30(c), (d))	**84,349**	14,005
	3,788,808	58,289,249

23 TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Notes receivables (i)	**147,687**	209,513
Provision for impairment	**(49,115)**	(2,127)
	98,572	207,386
Trade receivables (ii)		
– Due from related parties (Note 40(c))	**46,021**	186,743
– Due from third parties	**6,018,126**	3,561,703
Gross trade receivables	**6,064,147**	3,748,446
Provision for impairment	**(980,402)**	(609,786)
	5,083,745	3,138,660
Other receivables (iii)		
– Refundable deposits (a)	**101,783**	60,314
– Loans to third parties (b)	**–**	38,838
– Loans to related parties (b) (Note 40(c))	**666**	14,093
– Payments on behalf of customers (c)	**511,095**	1,098,364
– Others (d)	**65,306**	107,120
Gross other receivables	**678,850**	1,318,729
Provision for impairment (e)	**(349,615)**	(244,903)
	329,235	1,073,826
Prepayments	**105,355**	119,374
Input VAT to be deducted	**158,978**	44,302
Total trade, other receivables and prepayments	**5,775,885**	4,583,548

As at 31 December 2021, the fair value of trade and other receivables of the Group, except for the prepayments and input VAT to be deducted which are not financial assets, approximated their carrying amounts.

23 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	**6,739,321**	5,142,749
HKD	**47,525**	34,596
JPY	**24,040**	25,749
SGD	**131,866**	114,795
USD	**158,566**	85,170
Others	**53,699**	37,305
	7,155,017	5,440,364

(i) Notes receivables

The aging of most notes receivables is within 180 days, which is within the Group's credit terms. As at 31 December 2021, certain notes receivables were fully impaired due to remote possibility of recovery.

(ii) Trade receivables

The credit terms given to trade customers are determined on an individual basis with normal credit period mainly around 90 to 270 days. The aging analysis of the trade receivables based on date of revenue recognition is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Up to 6 months	**2,659,645**	2,078,068
6 months to 1 year	**1,048,809**	231,988
1 to 2 years	**1,402,755**	1,152,067
2 to 3 years	**852,127**	258,975
More than 3 years	**100,811**	27,348
	6,064,147	3,748,446

Due to the short-term nature of the current receivables, their carrying amounts are considered to be approximately the same as their fair values.

The Group does not hold any collateral as security over these debtors.

23 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(ii) Trade receivables (continued)

Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. On the basis as described in Note 3.1(b), the loss allowance for trade receivables as at 31 December 2021 are determined as follows:

As at 31 December 2021, the loss allowance of individually impaired trade receivables is determined as follows:

Individual	Trade receivables RMB'000	Expected credit loss rate %	Loss allowance RMB'000	Reason
Trade receivables	**49,337**	**36.57%**	**(18,041)**	**The likelihood of recovery**

At 31 December 2021	Up to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Total
Expected credit loss rate	**4.17%**	**11.82%**	**24.69%**	**38.58%**	**57.97%**	**100.00%**	**N.A.**
Gross carrying amount – trade receivables (RMB'000)	**2,657,858**	**1,046,239**	**1,361,787**	**849,271**	**84,313**	**15,342**	**6,014,810**
Loss allowance (RMB'000)	**(110,707)**	**(123,628)**	**(336,175)**	**(327,633)**	**(48,876)**	**(15,342)**	**(962,361)**

As at 31 December 2020, the loss allowance of individually impaired trade receivables is determined as follows:

Individual	Trade receivables RMB'000	Expected credit loss rate %	Loss allowance RMB'000	Reason
Trade receivables	8,163	100%	(8,163)	The likelihood of recovery

At 31 December 2020	Up to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Total
Expected credit loss rate	4.67%	12.65%	29.27%	47.42%	56.80%	100.00%	N.A.
Gross carrying amount – trade receivables (RMB'000)	2,078,067	231,918	1,149,668	256,556	16,422	7,652	3,740,283
Loss allowance (RMB'000)	(97,139)	(29,338)	(336,507)	(121,659)	(9,328)	(7,652)	(601,623)

23 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(iii) Other receivables

(a) Refundable deposits

Refundable deposits consists primarily of security deposits for rental and projects.

(b) Loans to third parties and related parties

The loans to third parties and related parties represent the loans granted loans to third parties and related parties for their general business operations by the Group previously. These loans were repayable on demand. Majority of the outstanding balances have been settled during the year ended 31 December 2021.

(c) Payments on behalf of customers

Payments on behalf of customers represent receivables arising from the sales transactions the Group acting as an agent. As discussed in Note 2.26(vi), the Group assessed whether revenue should be reporting on a gross or net basis for each sales transaction. For certain sales transactions where the Group acts as agent during the year ended 31 December 2021, revenue is recorded on a net basis and the receivables arising from these transactions were recorded in other receivables.

(d) Others

Others primarily include staff advance and receivables due from staff for the exercise of restricted shares and share options.

(e) Impairment and risk exposure

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences incorporating forward-looking information. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

23 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(iii) Other receivables (continued)

(e) Impairment and risk exposure (continued)

ECL model for other receivables, as summarised below:

- The other receivables that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis;

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis;

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis; and

- Under Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortised cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfer between stage 1 and stage 2 or 3 due to other receivables experiencing significant increases (or decrease) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognised, as well as releases for other receivables derecognised in the period; and

- Other receivables derecognised and write-offs of allowance related to assets that were written off during the period.

The Group considers customers as follow:

- 'Stage 1' – Customers who have a low risk of default and a strong capacity to meet contractual cash flows;

- 'Stage 2' – Customers whose repayments are due past but with reasonable expectation of recovery; and

- 'Stage 3' – Customers whose repayments are due past and with low reasonable expectation of recovery.

23 TRADE, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(iii) Other receivables (continued)

(e) Impairment and risk exposure (continued)

Loss allowance

The following tables explain the changes in the loss allowance for other receivables between the beginning and the end of the year:

	Stage 1 12-month ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Gross carrying amount as of 31 December 2021	**305,666**	**–**	**373,184**	**678,850**
Loss Allowance as of 31 December 2021	**(12,597)**	**–**	**(337,018)**	**(349,615)**
Expected credit loss rate	**4.12%**	**–**	**90.31%**	**N.A.**
Gross carrying amount as of 31 December 2020	1,036,181	–	282,548	1,318,729
Loss Allowance as of 31 December 2020	(27,662)	–	(217,241)	(244,903)
Expected credit loss rate	2.67%	–	76.89%	N.A.

24 LONG-TERM RECEIVABLES

Long-term receivables represented the receivables due for settlement by instalments, which are generally between 1 to 5 years. Long-term receivables contain significant financing components. Accordingly, these receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method. The portion due for settlement within 1 year is reclassified to trade receivables. The balance of long-term receivables were analysed in the following table.

24 LONG-TERM RECEIVABLES (CONTINUED)

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Payment by instalment sales contract	**562,543**	171,249
Less: due within one year	**(238,457)**	(10,159)
	324,086	161,090
Less: provision for impairment	**(17,226)**	(33,588)
	306,860	127,502

The fair value of long-term receivables as at 31 December 2021 is RMB306,801,000 (2020: RMB127,386,000).

Impairment and risk exposure

All of long-term receivables are denominated in RMB. As a result, there is no exposure to foreign currency risk.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for long-term receivables. On the basis as described in Note 3.1, the loss allowance for long-term receivables as at 31 December 2021 are determined as follows:

As at 31 December 2021, the loss allowance of impaired long term receivables is determined as follows:

	Trade receivables RMB'000	**Expected credit loss rate %**	**Loss allowance RMB'000**	**Reason**
Long-term receivables	**324,086**	**5.32%**	**(17,226)**	**The likelihood of recovery**

As at 31 December 2020, the loss allowance of impaired long term receivables is determined as follows:

	Trade receivables RMB'000	Expected credit loss rate %	Loss allowance RMB'000	Reason
Long-term receivables	161,090	20.85%	(33,588)	The likelihood of recovery

The decrease in expected credit loss rate for long-term receivables as at 31 December 2021 was due to the change in customer portfolio, primarily attributable to the reclassification of current portion of long-term receivables with higher expected credit loss rate to other receivables.

25 AMOUNT DUE FROM PREFERRED SHAREHOLDERS

Amount due from preferred shareholders represented the proceeds from subscription of preferred shares not yet received by the Company that the Company has already issued preferred shares to preferred shareholders. Some preferred shareholders paid RMB equivalent amounts as deposits to subsidiaries of the Company which was recorded as amount due to preferred shareholders (Note 33). The preferred shareholders settled all these outstanding balances during the year ended 31 December 2021.

The loss allowance was assessed for amount due from preferred shareholders and analysed in Note 3.1(b).

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Amount due from preferred shareholders	**–**	8,608,238
Less: provision for impairment	**–**	(15,129)
	–	8,593,109

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classified the following financial assets at fair value through profit or loss (FVPL):

– Debt investments that do not qualify for measurement at either amortised cost or FVOCI;

– Equity investments that are held for trading; and

– Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-current assets		
Debt investments (a)		
– Unlisted	3,331,613	2,453,104
– Fund	334,065	291,501
Equity investments (b)		
– Listed	431,917	783,216
– Unlisted	213,375	208,675
Derivative – Put option liability (Note 2.21(d))	–	2,072
	4,310,970	3,738,568
Current assets		
Structured deposits (c)	272,549	–
	4,583,519	3,738,568

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Debt investments

The movement of the debt investments is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At beginning of the year	**2,744,605**	2,656,696
Additions	**1,289,866**	150,848
Disposals	**(32,256)**	(2,600)
Interest received	**–**	(63,234)
Transfer to equity investments (i)	**(193,341)**	–
Fair value changes	**(96,463)**	139,949
Currency translation differences	**(46,733)**	(137,054)
At end of the year	**3,665,678**	2,744,605

(i) One of the companies invested by the Group was listed on the New York Stock Exchange in 2021, the preferred shares held by the Group was converted into ordinary shares, accordingly the investment was transferred from debt investment to equity investment.

The Group made investments in various industry companies in the form of convertible redeemable preferred shares, ordinary shares with preferential rights and convertible loans. The Group has the right to require and demand the investees to redeem all of the investments held by the Group at guaranteed predetermined amount upon redemption events which are out of control of the investees. Hence these investments are accounted for as debt instruments and are measured as financial assets at fair value through profit or loss. In addition, the Group also made investments in certain investment funds as a limited partner, these investments were included in debt investments, depending on the investment contract terms.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Equity investments

The movement of the equity investments is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At beginning of the year	**991,891**	244,710
Additions	**29,152**	806,732
Transfer from debt investments	**193,341**	–
Disposals	**(57,827)**	–
Fair value changes	**(494,709)**	(4,637)
Currency translation differences	**(16,556)**	(54,914)
At end of the year	**645,292**	991,891

The fair values of the listed securities are determined based on the closing price quoted in active markets. The fair values of the unlisted securities are measured using a valuation technique with unobservable inputs. The major assumptions used in the valuation refer to Note 3.3(c).

(c) Structured deposits

Structured deposits represented the wealth management products issued by reputable banks in mainland China or in Hong Kong. The wealth management products were non-principal protected with maturity of less than 1 year.

The movement of the wealth management products is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At beginning of the year	**–**	–
Additions	**15,429,000**	6,933,000
Disposals	**(15,235,034)**	(6,966,061)
Fair value changes	**78,583**	33,061
At end of the year	**272,549**	–

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(d) Amounts recognised in the consolidated income statement

During the year ended 31 December 2021, the following (losses)/gains were recognised in the consolidated income statement:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Fair value (losses)/gains on investments in:		
Debt investments	**(96,463)**	139,949
Equity investments	**(494,709)**	(4,637)
Derivative	**(2,072)**	2,338
Structured deposits	**78,583**	33,061
	(514,661)	170,711

(e) Risk exposure and fair value measurements

Information about the Group's exposure to financial risk and information about the methods and assumptions used in determining fair value are set out in Note 3.3.

27 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS

(a) Cash and cash equivalents

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Cash at banks and in hand	**21,520,616**	17,811,424
Less: restricted cash (b)	**(319)**	(493,364)
Less: term deposits with initial term of over three months (c)	**(4,990,791)**	(5,890,189)
Cash and cash equivalents	**16,529,506**	11,427,871

27 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS (CONTINUED)

(b) Restricted cash

As at 31 December 2021, USD50,000 (equivalent to RMB319,000) was restricted deposits for credit cards and foreign currency accounts.

As at 31 December 2020, USD73,700,000 (equivalent to RMB480,887,000) was restricted guarantee deposits held in a separate reserve account that is pledged to the bank as security deposits under bank borrowings agreements. RMB12,151,000 was restricted guarantee deposits for issuance of bank acceptance notes. USD50,000 (equivalent to RMB326,000) was restricted deposits for credit cards and foreign currency accounts.

(c) Term deposits were deposits with initial terms of over three months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial terms of over three months approximated to their fair value as at 31 December 2021.
Cash and cash equivalents are denominated in:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
– RMB	**6,635,613**	9,618,367
– USD	**5,167,908**	1,747,497
– HKD	**4,689,350**	20,006
– JPY	**13,172**	22,164
– Korea Won ("KRW")	**10,532**	590
– SGD	**5,524**	9,799
– MYR	**3,825**	189
– AED	**1,741**	6,840
– New Taipei Dollar ("NTD")	**1,614**	2,390
– Others	**227**	29
	16,529,506	11,427,871

27 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS (CONTINUED)

(c) (continued)

Restricted cash is denominated in:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
– USD	**319**	481,213
– RMB	**–**	12,151
	319	493,364

Term deposit is denominated in:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
– USD	**4,990,791**	5,789,576
– RMB	**–**	100,613
	4,990,791	5,890,189

28 SHARE CAPITAL

Authorised:

	Number of ordinary shares	Number of preferred shares
At 1 January 2021	**1,980,118,028,603**	**19,881,971,397**
Re-designation upon issuance of preferred shares	**(183,170,000)**	**183,170,000**
Conversion of preferred shares to Class B ordinary shares	**20,065,141,397**	**(20,065,141,397)**
At 31 December 2021	**2,000,000,000,000**	**–**
At 1 January 2020	1,986,176,358,603	13,823,641,397
Re-designation upon issuance of preferred shares	(6,058,330,000)	6,058,330,000
At 31 December 2020	1,980,118,028,603	19,881,971,397

Issued:

	Note	Number of shares	Share capital RMB'000
At 1 January 2020 and 31 December 2020		10,212,538,603	2
At 1 January 2021		10,212,538,603	2
Issuance of ordinary shares for share-based compensation plan	(a)	1,504,720,000	*
Issuance of ordinary shares from initial public offering	(b)	1,500,000,000	*
Conversion of preferred shares to Class B ordinary shares	(c)	20,065,141,397	3
At 31 December 2021	(e)	**33,282,400,000**	**5**

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

	As at 31 December 2021 Number of shares
Class A ordinary shares	**7,528,760,000**
Class B ordinary shares	**25,753,640,000**
	33,282,400,000

28 SHARE CAPITAL (CONTINUED)

(a) On 26 February 2021, pursuant to a shareholder resolution, additional 1,504,720,000 ordinary shares of par value of USD0.000000025 each, were issued to SenseTalent Management as a reserved share-based compensation plan pool.

(b) On 30 December 2021, the Company completed its IPO of 1,500,000,000 ordinary shares at HKD3.85 per share and listed on the Main Board of the Stock Exchange of Hong Kong Limited. The issuance of 1,500,000,000 Class B ordinary shares, net of underwriting commission and other issuance cost, led to an increase of share capital and share premium by RMB239 and RMB4,610,673,000, respectively.

(c) Upon completion of the IPO, each issued preferred share were converted into one Class B ordinary share by re-designation and reclassification of every preferred share in issue as an Class B ordinary share on a one for one basis. As a result, the financial liabilities for preferred shares were derecognised and recorded as share capital and share premium with the amount of RMB3,000 and RMB63,077,759,000, respectively. Amounts in other comprehensive income relating to changes in own credit risk were transferred to retained earnings when preferred share liabilities issued by the Company were derecognised.

(d) During the year ended 31 December 2021, SenseTalent Management transferred 246,510,000 ordinary shares to several financial investors. In the same period, Amind transferred 622,679,398 ordinary shares to XWORLD Enterprise Inc. ("XWorld"), Vision Worldwide Enterprise Inc. ("Vision Worldwide"), Infinity Vision Enterprise Inc ("Infinity Vision") based on the respective shareholding percentages of the controlling parties of these entities in Amind. No change in the Company's share capital and other reserve after the equity transfer.

(e) All the issued and unissued shares have been reclassified from the date of successful listing as Class A ordinary shares and Class B ordinary shares of US$0.000000025 and US$0.000000025 par value each respectively. The ordinary shares originally held by Amind, XWorld, Infinity Vision and Vision Worldwide were reclassified as Class A ordinary shares and all the other ordinary shares were reclassified into Class B ordinary shares. In addition, all the preferred shares were converted into Class B ordinary shares. As at 31 December 2021, 7,528,760,000 Class A ordinary shares and Class B ordinary shares 25,753,640,000 were in issue respectively.

29 OTHER RESERVES

	Shares held for share award scheme RMB'000	Share premium RMB'000	Share-based compensation expenses RMB'000	Other comprehensive income reserve RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	*	**1,058,422**	**371,307**	**(1,168,117)**	**(694,468)**	**(432,856)**
Issuance of ordinary shares from initial public offering, net of underwriting commissions and other issuance costs (Note 28)	–	**4,610,673**	–	–	–	**4,610,673**
Conversion of convertible redeemable preferred shares to Class B ordinary shares (Note 28, 30(a))	–	**63,077,759**	–	**1,296,414**	–	**64,374,173**
Share-based compensation expenses (Note 7)	–	–	**1,583,925**	–	–	**1,583,925**
Exercise of restricted shares and share options (Note 31)	*	**1,409,062**	**(1,335,653)**	–	–	**73,409**
Capital contribution by controlling shareholder (i)	–	–	–	–	**10,365**	**10,365**
Consideration paid to the then equity holders for acquisition of subsidiaries under common control (ii)	–	–	–	–	**(13,766)**	**(13,766)**
Changes in credit risk for financial liabilities designated as at fair value through profit or loss (Note 30)	–	–	–	**(128,297)**	–	**(128,297)**
As at 31 December 2021	*	**70,155,916**	**619,579**	–	**(697,869)**	**70,077,626**
At 1 January 2020	*	364,273	165,933	(669,818)	(733,572)	(873,184)
Share-based compensation expenses (Note 7)	–	–	887,043	–	–	887,043
Exercise of restricted shares and share options	–	694,149	(681,669)	–	–	12,480
Loans waived by controlling shareholder	–	–	–	–	39,104	39,104
Changes in credit risk for financial liabilities designated as at fair value through profit or loss (Note 30)	–	–	–	(498,299)	–	(498,299)
At 31 December 2020	*	1,058,422	371,307	(1,168,117)	(694,468)	(432,856)

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

(i) During the year ended 31 December 2021, the Company received a cash contribution from the controlling shareholder, Prof. Tang, with a total amount of USD1,604,000 (equivalent to RMB10,365,000) and recorded as a capital contribution by controlling shareholder in other reserve.

(ii) During the year ended 31 December 2021, the Company acquired 100% equity interest in SenseTime Investment Limited from Amind Holding Inc. at a total consideration of USD2,127,000 (equivalent to RMB13,766,000). The total purchase consideration of RMB13,766,000 was recorded in other reserve and settled in August 2021.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES

As at 31 December 2021, the preferred share and other financial liabilities included:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Preferred share liabilities issued by the Company (a)	**–**	50,185,657
Preferred share liabilities issued by a subsidiary (b)	**988,234**	–
Total preferred share liabilities	**988,234**	50,185,657
Warrant liabilities (c)	**–**	14,005
Net asset value of investment funds attributable to limited partners (d)	**84,349**	–
Total other financial liabilities	**84,349**	14,005
Total preferred share and other financial liabilities	**1,072,583**	50,199,662
Including:		
Current portion	**–**	1,911,613
Non-current portion	**1,072,583**	48,288,049
	1,072,583	50,199,662

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(a) Preferred share liabilities issued by the Company

The movement of the convertible redeemable preferred share issued by the Company are set out as below:

	Series A-1 RMB'000	Series A-2 RMB'000	Series B-1 RMB'000	Series B-2 RMB'000	Series B-3 RMB'000	Series C-1 RMB'000	Series C-2 RMB'000	Series C+ RMB'000	Series C++ RMB'000	Series C-prime RMB'000	Series D RMB'000	Series D+ RMB'000	Total RMB'000
At 1 January 2021	**1,057,449**	**124,678**	**715,481**	**5,511,312**	**569,743**	**1,418,723**	**7,048,136**	**6,992,806**	**6,107,771**	**4,922,590**	**11,774,569**	**3,942,399**	**50,185,657**
Issuance of preferred shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**639,670**	**639,670**
Fair value change	**467,051**	**52,916**	**249,080**	**2,052,834**	**210,828**	**514,404**	**2,238,713**	**1,862,657**	**1,291,846**	**931,490**	**2,733,157**	**917,237**	**13,522,213**
Effects of changes in own credit risk for financial liabilities designated as at fair value through profit or loss	**330**	**138**	**937**	**8,291**	**844**	**2,033**	**14,802**	**17,686**	**17,508**	**14,856**	**37,112**	**13,760**	**128,297**
Currency translation differences	**(31,597)**	**(3,700)**	**(20,517)**	**(159,807)**	**(16,503)**	**(40,954)**	**(199,404)**	**(193,220)**	**(164,439)**	**(131,116)**	**(320,203)**	**(116,615)**	**(1,398,075)**
Conversion into Class B ordinary shares (Note 28)	**(1,493,233)**	**(174,032)**	**(944,981)**	**(7,412,630)**	**(764,912)**	**(1,894,206)**	**(9,102,247)**	**(8,679,929)**	**(7,252,686)**	**(5,737,820)**	**(14,224,635)**	**(5,396,451)**	**(63,077,762)**
At 31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 1 January 2020	664,088	80,511	523,054	3,761,470	389,411	986,112	5,188,462	5,617,925	5,414,879	4,479,757	–	–	27,105,669
Issuance of preferred shares	–	–	–	–	–	–	–	–	–	–	10,975,507	3,994,605	14,970,112
Fair value change	459,453	51,403	233,772	2,059,122	212,386	513,014	2,234,759	1,734,607	1,000,594	687,734	1,369,641	(330)	10,556,155
Effects of changes in own credit risk for financial liabilities designated as at fair value through profit or loss	1,931	808	5,489	48,546	4,944	11,904	86,666	103,556	102,516	86,984	41,774	3,181	498,299
Currency translation differences	(68,023)	(8,044)	(46,834)	(357,826)	(36,998)	(92,307)	(461,751)	(463,282)	(410,218)	(331,885)	(612,353)	(55,057)	(2,944,578)
At 31 December 2020	1,057,449	124,678	715,481	5,511,312	569,743	1,418,723	7,048,136	6,992,806	6,107,771	4,922,590	11,774,569	3,942,399	50,185,657

(i) During the year ended 31 December 2020, the Company issued 4,524,880,000 shares of preferred shares to Series D preferred shareholders at a cash consideration of USD1,599,997,568 (equivalent to RMB10,975,507,000).

From 2020 to 2021, the Company issued 1,716,620,000 shares of Preferred Shares to Series D+ preferred shareholders at a cash consideration of USD702,784,228 (equivalent to RMB4,634,275,000).

(ii) All the outstanding preferred shares issued by the Company were converted into the Company's Class B ordinary shares as at 30 December 2021 upon completion of the IPO (Note 28).

The key terms of the Series A-1 preferred shares to Series D+ preferred shares are summarised as below:

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(a) Preferred share liabilities issued by the Company (continued)

(1) Liquidation preference

In the event of the occurrence of any:

(i) Any direct or indirect consolidation, amalgamation, scheme of arrangement or merger of any group companies or, unless otherwise consented in writing by the majority of each series of preferred shareholders, Amind Inc. with or into any other person or other reorganisation in which the members or shareholders of such group company immediately prior to such consolidation, amalgamation, merger, scheme of arrangement or reorganisation own less than fifty percent (50%) of such group company's voting power in the aggregate immediately after such consolidation, merger, amalgamation, scheme of arrangement or reorganization, or any transaction or series of related transactions to which such group company is a party or target in which in excess of fifty percent (50%) of such group company's voting power is transferred;

(ii) A sale, transfer, license or other disposition of all or substantially all of the assets (including the material intellectual property) of any group company (or any series of related transactions resulting in such sale, transfer, license or other disposition of all or substantially all of the assets (including the intellectual property) of such group company);

(iii) The exclusive licensing of all or substantially all of any group company's intellectual property to a third party; and

(iv) Liquidation, dissolution or winding up of the Company, whether voluntary or involuntary.

All assets and funds of the Company legally available for distribution to the shareholders (after satisfaction of all creditors' claims and claims that may be preferred by applicable law) shall be distributed to the shareholders as set out below:

Each holder of preferred shares shall be entitled to receive for each series of preferred shares it holds on the preferential basis, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of other series of preferred shares and ordinary shares or any other class or series of shares by reason of their ownership of such shares, the amount equal to the higher of (i) 120% to 500% of the respective applicable issue price (ii) internal rate of return ("IRR") of 8% to 15% per annum in respect of the respective applicable issue price (as adjusted for any share splits, subdivisions, share consolidations, share dividends or similar re-capitalization events) commencing from the relative issue date up to and including the date on which the preference amount is received by the preferred shareholders then outstanding, plus all declared but unpaid dividends on such respective preferred shares, by the following order: (1) Series D+; (2) Series D; (3) Series C-prime; (4) Series C++; (5) Series C+; (6) Series C-1 and Series C-2; (7) Series B-1, Series B-2 and Series B-3; (8) Series A-1 and Series A-2.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(a) Preferred share liabilities issued by the Company (continued)

(1) Liquidation preference (continued)

(iv) (continued)

If there are any assets or funds remaining after the aggregate preference amount has been distributed or paid in full to the applicable holders of preferred shares, the remaining assets and funds of the Company available for distribution to the shareholders shall be distributed rateably among all members other than the holders of the Series A preferred shares according to the relative number of ordinary shares held by such shareholders on an as-converted basis.

(2) Redemption rights and price

The shareholders of preferred shares may give a written notice to the Company at any time or from time to time requesting redemption of all or part of their preferred shares under specific conditions as provided in the Article of Association. The redemption price of each share to be redeemed shall equal to (x) the sum of (A) one hundred percent (100%) of the issue price for each series, (B) a compound interest rate of 8% per annum, for each year such preferred shares was outstanding measured from the issue date with respect to such preferred shares held by certain investors through the date of redemption thereof (calculated on a pro rata basis in case of a partial year), plus (C) any declared but unpaid dividends thereon up to the date of actual payment of such redemption price, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations or mergers.

For Series D-1 and Series D+ preferred shares, the Company shall repurchase all of the preferred shares, if a request being made by any of the holders of Series D-1 and Series D+ preferred shares, at any time after the earlier of:

(i) the failure by the Company to complete an IPO, deemed liquidation event or share sale by 30 June 2024;

(ii) the occurrence of a material breach by any of the group companies, the founders or founders' companies of any of their respective representations, warrants, covenants, agreements or undertakings as set out in the relevant agreements and such group companies, the founders or founders' companies fail to cure such material breach within a reasonable period of time; and

(iii) any holder of any other class of shares has successfully exercised its redemption right.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(a) Preferred share liabilities issued by the Company (continued)

(2) Redemption rights and price (continued)

For other series of preferred shares, the redemption terms are similar, except for the respective redemption commerce dates as set out below:

	Redemption Commencement date	
Series A-1, Series A-2 and Series B-1 preferred shares	complete a Qualifies IPO by the fifth anniversary of Series B-1 issue date	10 October 2021
Series B-2 and Series B-3 preferred shares	complete an IPO, deemed liquidation event or share sale by the fifth anniversary of Series B-2 issue date	25 January 2022
Series C-1 to Series C-prime preferred shares	complete an IPO, deemed liquidation event or share sale by the fifth anniversary of Series B-2 issue date	25 January 2022

On 23 June 2021, the Company signed a letter with Series A to Series C-prime preferred shareholders to extend the redemption date of these convertible redeemable preferred shares to 31 January 2023.

(3) Dividend rights

(i) The holders of the preferred shares shall be entitled to receive dividends at the same rate as for the holders of the ordinary shares (calculated on an as converted basis), payable out of funds or assets when and as such funds or assets become legally available therefor on parity with each other and the holders of the ordinary shares, when, as, and if declared by the board of directors.

(ii) Except for an exempted distribution and except for a distribution pursuant to liquidation preference mentioned above, no dividend or distribution, whether in cash, in property, or in any other shares of the Company, shall be declared, paid, set aside or made with respect to the ordinary shares at any time unless a dividend or distribution is likewise declared, paid, set aside or made, respectively, at the same time with respect to each outstanding preferred shares such that the dividend or distribution declared, paid, set aside or made to the holders of preferred shares thereof shall be equal to the dividend or distribution that such holders of preferred shares would have received if such preferred shares had been converted into ordinary shares immediately prior to the record date for such dividend or distribution, or if no such record date is established, the date such dividend or distribution is made, and if such share then participated in and the holder thereof received such dividend or distribution.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(a) Preferred share liabilities issued by the Company (continued)

(4) Conversion rights

Unless converted earlier pursuant to the provisions with respect to automatic conversion as set out below, preferred shares shall be convertible, at the option of the holder thereof, at any time into such number of fully paid and non-assessable ordinary shares at an initial conversion ratio of 1:1, and thereafter shall be subject to adjustment and re-adjustment from time to time if (a) any share splits, combination, share dividends and distribution or reorganisations, mergers, consolidations, reclassifications, exchanges, substitutions events occurred or (b) upon issuance of new securities or (c) if the valuation of an IPO, a deemed liquidation event or a share sale implies a price per share is less than two and one half times (2.5X) of the Series B-1 issue price, then and in such event, the conversion price for the Series B-1 preferred shares held by certain investors then in effect immediately prior to the consummation of such event shall be or shall be deemed to be adjusted.

Each preferred shares shall automatically be converted into ordinary shares at the then effective relevant conversion price upon (A) the closing of a Qualified IPO or (B) the written notice of the majority holders of Series D+ preferred shares or (C) the written notice of the majority holders of Series D preferred shares for conversion of Series D preferred shares, or (D) the written notice of the majority holders of Series C++ preferred shares for conversion of Series C++ preferred shares (E) the written notice of the majority holders of Series C+ preferred shares for conversion of Series C+ preferred shares; or (F) the written notice of the majority holders of Series C-1 and Series C-2 preferred shares for conversion of Series C-1 and Series C-2 preferred shares; or (G) the written notice of the majority holders of Series B-2 and Series B-3 preferred shares for conversion of Series B-2 and Series B-3 preferred shares; or (H) the written notice of the majority holders of Series B-1 preferred shares for conversion of Series B-1 preferred shares; or (I) the written notice of the majority holders of Series A preferred shares for conversion of Series A preferred shares.

Qualified IPO means a firm commitment underwritten public offering of the ordinary shares of the Listing Vehicle (or depositary receipts or depositary shares thereof) (i) in the United States on the New York Stock Exchange or the NASDAQ pursuant to an effective registration statement under the Securities Act, as amended, or on the Hong Kong Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange, or any other internationally recognised stock exchange, provided that in the case of any other internationally recognised stock exchange, such stock exchange is approved by (A) the Series A Majority, (B) the Series B-1 Majority, (C) the Series B-2 Majority, (D) the Series C-1/C-2 Majority, (E) the Series C+ Majority, (F) the Series C++ Majority, (G) the Series C-prime Majority, (H) the Series D Majority, and (I) the Series D+ Majority; and (ii) in each case, with an offering price (net of underwriting commissions and expenses) that implies an issuing price per share immediately upon the consummation of the public offering no lower than a pre-determined price (as adjusted for any share splits, subdivisions, share consolidations, share dividends or similar re-capitalization events); it being specified that any dividends or any other distributions solely in form of cash in respect of each Share, whether paid or accrued but unpaid as at the date thereof, shall be deducted from the issue price per share in determining whether a Qualified IPO has occurred.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(b) Preferred share liabilities issued by a subsidiary

On 22 September 2021, SenseMeet Investment limited ("SenseMeet") and a sovereign wealth fund of the Government of Saudi Arabia ("Fund A") signed a joint venture agreement to set up SenseWonder Technology Limited ("SenseWonder"). 51 ordinary shares and 49 convertible preferred shares were issued to SenseMeet and Fund A respectively. The consideration for subscription of preferred shares by Fund A shall be paid in two tranches, first tranche consideration amounted to USD155,000,000 and second tranche amounted to USD52,000,000 when certain conditions are satisfied. As of 31 December 2021, USD155,000,000 (equivalent to RMB988,234,000) has been paid by Fund A. Pursuant to the agreement, Fund A was also granted a put option to require SenseMeet to acquire all its preferred shares in SenseWonder on the occurrence of some certain events. The preferred shares issued to Fund A has dividends and conversion rights. Fund A has a preferential dividend rate of eight percent (8%) upon liquidation event or an exercise of its put option. Accordingly, the investment by Fund A to SenseWonder are recognised as preferred share liability at FVPL.

(c) Warrant liabilities

	Warrant liability RMB'000
At 1 January 2021	**14,005**
Repurchase (i)	**(17,045)**
Fair value change	**3,324**
Currency translation differences	**(284)**
At 31 December 2021	**–**
At 1 January 2020	7,469
Fair value change	7,422
Currency translation differences	(886)
At 31 December 2020	14,005

(i) The Company issued a warrant to a financial investor (the "Warrant Holder") on 17 May 2016 for a cash consideration of USD66. Pursuant to the warrant agreement, the Warrant Holder could purchase up to 8,000,000 Series B preferred shares of the Company with a cash consideration of USD0.0768935 per share before 16 May 2021 (after share split). The Company repurchased the warrant liability from the Warrant Holder at a total price of USD2,660,000 (equivalent to RMB17,045,000) in May 2021.

(d) Net asset value of investment funds attributable to limited partners

In August 2021, the Group established Beijing Guoxiang Shangheng Equity Investment Fund Partnership (limited partnership), as a limited partnership with an 8-year life, together with four limited partners for strategic investment. During the year ended 31 December 2021, the Group has already received RMB85,000,000 capital injection from these limited partners. The Group designated the net asset value of investment funds attributable to limited partners as financial liabilities at fair value through profit or loss.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(e) Losses on the changes in fair value of preferred share and other financial liabilities

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Losses recognised on:		
Changes in fair value of preferred shares issued by the Company	**13,522,213**	10,556,155
Changes in fair value of other financial liabilities	**3,324**	7,422
	13,525,537	10,563,577
Losses attributable to changes in credit risk of above financial instruments recognised in other comprehensive loss	**128,297**	498,299

(f) Fair value valuation method for preferred shares

The Company has performed assessment on the fair value of the preferred shares issued by a subsidiary. The value of the preferred shares issued by a subsidiary was determined using the equity allocation method as of the issuance date and at the end of the year assuming no significant value change of the subject subsidiary.

For the year ended 31 December 2021, key valuation assumptions used to determine the fair value of preferred shares issued by a subsidiary are as follows:

	As at 31 December 2021
Expected volatility	**49.58%**
Risk-free rate	**0.90%**

The Company performed sensitivity test to changes in unobservable inputs in determining the fair value of the preferred shares issued by a subsidiary. The changes in unobservable inputs including expected volatility and risk-free rate will result in a significantly higher or lower fair value measurement. The increase in the fair value of the preferred shares issued by a subsidiary would increase the loss of fair value change in the consolidated income statement. When performing the sensitivity test, management applied an increase or decrease to each unobservable input, which represents management's assessment of reasonably possible change to these unobservable inputs.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(f) Fair value valuation method for preferred shares (continued)

If the Company's key valuation assumptions used to determine the fair value of the preferred shares issued by a subsidiary had added/reduced 1% with all other variables held constant, the loss before income tax for the year ended 31 December 2021, the estimated fair value changes from carrying amount listed in below table (assuming the change of key factors would not have significant impact on fair value change attributable to credit risk):

	As at 31 December 2021	
	Expected volatility RMB'000	**Risk-free rate RMB'000**
Impact on the loss before income tax due to estimated fair value changes of the preferred shares issued by a subsidiary		
Add 1%	**(3,956)**	**(11,306)**
Reduce 1%	**4,007**	**11,397**

The Company has engaged an independent valuer to determine the total fair value of the preferred shares. The discounted cash flow method was used to determine the total equity value of the Company and then equity allocation model was adopted to determine the fair value of the preferred shares as of the dates of issuance and at the end of the year.

For the year ended 31 December 2020, key valuation assumptions used to determine the fair value of preferred shares issued by the Company are as follows:

	As at 31 December 2020
Discount rate	18.0%
DLOM	10.7%

Discount rate was estimated by weighted average cost of capital as of each valuation date. The DLOM was estimated based on the option-pricing method. Under the option pricing method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount.

30 PREFERRED SHARE AND OTHER FINANCIAL LIABILITIES (CONTINUED)

(f) Fair value valuation method for preferred shares (continued)

The Company performed sensitivity test to changes in unobservable inputs in determining the fair value of the preferred shares issued by the Company. The changes in unobservable inputs including discount rate and DLOM will result in a significantly higher or lower fair value measurement. The increase in the fair value of the preferred shares issued by the Company would increase the loss of fair value change in the consolidated income statement. When performing the sensitivity test, management applied an increase or decrease to each unobservable input, which represents management's assessment of reasonably possible change to these unobservable inputs.

If the Company's key valuation assumptions used to determine the fair value of the preferred shares issued by the Company had added/reduced 1% with all other variables held constant, the loss before income tax for the year ended 31 December 2020, the estimated fair value changes from carrying amount listed in below table (assuming the change of key factors would not have significant impact on fair value change attributable to credit risk):

	As at 31 December 2020	
	DLOM RMB'000	Discount rate RMB'000
Impact on the loss before income tax due to estimated Fair value changes of the preferred shares issued by the Company		
Add 1%	327,582	4,260,108
Reduce 1%	(393,084)	(5,109,741)

31 SHARE-BASED COMPENSATION PLANS

Starting from 2016, the board of directors approved the restricted shares plan ("Pre-IPO RSU Plan") and share option plan ("Pre-IPO ESOP") for the purpose of providing incentive for certain directors, senior management members and employees contributing to the Group.

(a) Pre-IPO RSU Plan

On 2 November 2016, 68,697 RSUs were granted to employees and the exercise price of all RSUs was USD0.0998799 per share. Total number of RSUs was 686,970,000 after share split with a ratio of 1:10,000 and the exercise price was USD0.000009988 on 9 April 2018. All RSUs were vested and exercisable on 30 December 2016.

(b) Pre-IPO ESOP

From 2016 to 2021, the Company adopted several batches of the Pre-IPO ESOP. Under these plans, the employees were required to complete a service period and meet specified performance targets. The terms and conditions of the Pre-IPO ESOP during the year ended 31 December 2021 were as follows:

Date of options granted	Number of shares (after share split)	Vesting Periods	Contractual life of options
2 November 2016	282,620,000	0-4 years	7 years
1 July 2017	680,410,000	0-4 years	7 years
1 February 2019	237,410,945	0-4 years	7 years
30 June 2019	30,402,994	4 years	7 years
1 January 2020	789,222,154	0-4 years	7 years
1 July 2020	28,586,854	4 years	7 years
1 January 2021	908,981,674	0-4 years	7 years
1 July 2021	24,627,628	0-4 years	7 years

31 SHARE-BASED COMPENSATION PLANS (CONTINUED)

(b) Pre-IPO ESOP (continued)

Movements in the number of share options granted and their related weighted average exercise price during the year ended 31 December 2021 are as follows:

	Year ended 31 December			
	2021		2020	
	Average exercise price per share option (HKD)	Number of options	Average exercise price per share option (HKD)	Number of options
At beginning of the year	0.38	803,339,052	0.22	554,749,236
Granted	0.32	933,609,302	0.25	817,809,008
Exercised	0.10	(738,184,662)	0.03	(556,613,757)
Forfeited	0.66	(19,056,476)	0.60	(12,605,435)
At end of the year	0.53	979,707,216	0.38	803,339,052

No option expired during the year ended 31 December 2021 (2020: nil).

As at 31 December 2021, 404,733,360 (2020: 424,315,609) options were vested and exercisable.

Share options outstanding at the end of the years have the following expiry date and exercise prices:

			Number of share options	
Grant date	Expiry date	Exercise price (HKD)	December 31, 2021	December 31, 2020
2 November 2016	2 November 2023	*	93,414,879	102,112,500
1 July 2017	1 July 2024	0.22 or *	92,292,347	144,828,500
1 February 2019	1 February 2026	0.78 or 0.22 or *	135,888,331	205,799,979
30 June 2019	30 June 2026	0.78	19,261,370	26,015,798
1 January 2020	1 January 2027	0.78 or 0.22 or *	246,153,652	295,995,421
1 July 2020	1 July 2027	0.78	26,553,236	28,586,854
1 January 2021	1 January 2028	0.78 or 0.22 or *	342,187,741	–
1 July 2021	1 July 2028	0.78 or 0.22	23,955,660	–
		Total	979,707,216	803,339,052

* represents that the amount is less than HKD0.01 for the year.

31 SHARE-BASED COMPENSATION PLANS (CONTINUED)

(c) Fair value estimation of RSUs and share options

The fair value as at the grant dates of each of the share-based compensation plans are summarised as follows:

	1 January 2020 RMB'000	1 July 2020 RMB'000	1 January 2021 RMB'000	1 July 2021 RMB'000
Share options (i)	968,350	34,707	1,820,442	44,672

(i) Share options

Before listing, as a private company with no quoted market of the Company's equity instruments, the Company needs to estimate the fair value of the Group's equity interests at the relevant grant dates. The equity allocation method has been applied in the determination of the fair value of each class of the shares in the Company, which requires considering the rights and preferences of each class of shares and back solving for the total equity value that is consistent with a recent transaction in the Company's own securities, considering the rights and preferences of each class of shares.

The directors of the Company estimated the risk-free interest rate based on the yield of curve of US Treasury strips with a maturity life close to the option life of the share option. Expected volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Time to maturity is based on the terms of agreements at the grant date.

The fair value of the share options granted under Pre-IPO ESOP have been valued by an independent qualified valuer using the Binomial valuation model as at each grant date. Key assumptions are set as below:

Grant date	Risk-free interest rate	Expected volatility	Time to maturity
January 1, 2020	1.83%	51.71%	7 years
July 1, 2020	0.52%	52.07%	7 years
January 1,2021	0.65%	51.69%	7 years
July 1, 2021	1.24%	52.19%	7 years

31 SHARE-BASED COMPENSATION PLANS (CONTINUED)

(d) Share-based compensation expenses recorded during the year ended 31 December 2021

During the year ended 31 December 2021, the amounts of share-based compensation expenses charged to administrative expenses, research and development expenses and selling expenses are as follow:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Administrative expenses	**982,974**	568,285
Research and development expenses	**552,744**	286,404
Selling expenses	**48,207**	32,354
	1,583,925	887,043

32 TRADE AND OTHER PAYABLES AND LONG-TERM PAYABLES

(a) Trade and other payables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Notes payables	**–**	82,830
Trade payables		
– Third parties	**468,020**	532,857
– Related parties (Note 40(c))	**2,381**	1,155
Other payables		
– Third parties	**424,263**	572,560
– Related parties (Note 40(c))	**1,125**	15,765
Payables on purchase of property, plant and equipment and intangible assets	**565,595**	41,049
Payables for listing expenses	**122,939**	–
Accrued taxes other than income tax	**226,011**	123,925
Staff salaries and welfare payables	**449,089**	318,173
VAT payables related to contract liabilities	**5,284**	18,583
Accrued warranty expenses	**25,551**	17,559
	2,290,258	1,724,456

32 TRADE AND OTHER PAYABLES AND LONG-TERM PAYABLES (CONTINUED)

(a) Trade and other payables (continued)

(i) The carrying amounts of trade and other payables are considered to be approximated to their fair values, due to their short-term nature.

(ii) Aging analysis of the trade payables based on purchase date at the end of 31 December 2021 are as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Up to 6 months	**392,277**	475,091
6 months to 1 year	**25,249**	12,446
1 to 2 years	**32,526**	46,475
More than 2 years	**20,349**	–
	470,401	534,012

(b) Long-term payables

Long-term payables represented the obligations to pay for goods and licensed intellectual properties with payments due more than 1 year. The fair values of long-term payables as at 31 December 2021 were RMB44,958,000 (2020: RMB66,005,000).

33 AMOUNT DUE TO PREFERRED SHAREHOLDERS

During the year ended 31 December 2020, certain preferred shareholders did not complete necessary outbound investment procedures and did not pay the investment amount in USD to the Company. Instead, they deposited RMB equivalent amount to the subsidiaries of the Company to fulfil the investment obligations under the investment agreements. Such deposits were recorded as amount due to preferred shareholders on the consolidated balance sheets.

During the year ended 31 December 2021, all these investors completed the outbound investment procedures and remit USD investment amount to the Company and the subsidiaries of the Company also repaid the RMB deposits to these investors. Accordingly, all these outstanding balances were settled as at 31 December 2021.

34 CONTRACT LIABILITIES

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Current		
Deferred service fee income (i)	15,183	5,223
Advances from customers	156,948	238,829
	172,131	244,052
Non-current		
Deferred service fee income (i)	37,550	9,341

(i) Deferred service fee income represented the maintenance and upgrade service obligations separated from the revenue contracts, which were analysed in Note 2.26.

The addition of contract liabilities was mainly due to the increase of cash payments made upfront by the Group's customers under sales contract. See Note 5(f) for the analysis of the revenue, which was included in the contract liabilities balance at the beginning of the period, recognised during the year ended 31 December 2021 relates to carried-forward contract liabilities.

35 PUT OPTION LIABILITY

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Present value of liability in relation to a put option granted to non-controlling shareholder of a subsidiary (a)	255,028	260,996

(a) On 17 April 2019, the Group entered into an agreement with a strategic technology partner ("Company Z") to allot and issue 45% of the subsidiary's equity interest. According to the equity subscription arrangement, Company Z have the right to request the Group to purchase the 45% equity it held at a pre-agreed price on the occurrence of some certain events. The purchase price was determined by making reference to the net assets of the subsidiary in future periods or a fixed amount (USD40,000,000) as stated in the equity subscription arrangement. Since the Group is obligated to pay cash to Company Z upon occurrence of certain events beyond the Group's control, this put option liability was initially recognised at present value of redemption amount by the Group with reference to the present value of the estimated future cash outflows, and was accreted to redemption amount subsequently.

36 BORROWINGS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-Current		
Bank borrowing – secured	**339,505**	441,000
Less: current portion of non-current borrowings	**–**	(18,000)
	339,505	423,000
Current		
Short-term borrowing – unsecured	**–**	573,967
Current portion of non-current borrowings	**–**	18,000
Interest payable	**383**	1,594
	383	593,561
Total	**339,888**	1,016,561

As at 31 December 2021, the Group had a bank loan with carrying amount of RMB339,888,000 which was pledged by equity interest of Shanghai Yuqin and joint liability guarantee from Shanghai Yuqin and Shanghai SenseTime. In addition, certain buildings (Note 16(a)) and land use right (Note 17(i)(a)) with a carrying amount of RMB854,796,000 and RMB65,869,000 respectively were also pledged as collaterals for the Group's borrowings.

As at 31 December 2020, the Group had a bank loan with carrying amount of RMB441,000,000 which were pledged by certain buildings with a carrying amount of RMB899,661,000 (Note 16(a)).

The Group's borrowings are denominated in:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
– RMB	**339,888**	1,008,483
– SGD	**–**	4,455
– USD	**–**	3,623
	339,888	1,016,561

36 BORROWINGS (CONTINUED)

At 31 December 2021, the Group's borrowings were repayable as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
6 months or less	**–**	394,940
Between 6 and 12 months	**–**	197,027
Between 1 and 2 years	**–**	27,000
Between 2 and 5 years	**33,951**	118,000
Over 5 years	**305,554**	278,000
Total	**339,505**	1,014,967

As at 31 December 2021, the weighted average effective interest rate for borrowings was 4.12% (2020: 4.16%).

The fair values of current borrowings equal to their carrying amount as the discounting impact is not significant.

The fair values of non-current borrowings as at 31 December 2021 were disclosed as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-current borrowings	**348,310**	435,822

As at 31 December 2021, the Group has the following undrawn bank facilities:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB facilities	**7,963,699**	9,227,117
USD facilities	**178,520**	202,597
	8,142,219	9,429,714

37 DEFERRED REVENUE

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants (i)		
– Current	**171,130**	–
– Non-current	**140,251**	349,532
	311,381	349,532

(i) The Group received government grants from local governments as support on research and development expenses relating to innovation activities. These government grants were related to the purchase of property, plant and equipment and certain research and development projects, accordingly when the required criteria set by the government are met, the portion of the qualified fund is recognised as "other income" and the remaining balance is recoded as "deferred revenue".

38 CASH FLOW INFORMATION

(a) Cash used in operations

	Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
Loss before income tax	**(17,141,544)**	(12,319,017)
Adjustments for		
– Depreciation of property, plant and equipment (Note 16)	**457,074**	370,956
– Amortisation of intangible assets (Note 18)	**63,227**	57,683
– Depreciation of right-of-use assets (Note 17)	**137,529**	141,013
– Provision for impairment of financial assets (Note 3.1(b))	**517,608**	522,046
– Provision for impairment of Investments accounted for using the equity method	**4,257**	–
– Provision for impairment of inventories (Note 21)	**36,960**	23,138
– Share of loss of investments accounted for using the equity method (Note 12)	**40,231**	6,055
– Share-based compensation expenses (Note 7)	**1,583,925**	887,043
– Finance costs (Note 10)	**33,758**	112,509
– Finance income (Note 10)	**(187,716)**	(174,902)
– Fair value losses/(gains) on financial assets at fair value through profit or loss (Note 9)	**514,661**	(170,711)
– Dividend income (Note 8)	**(6,154)**	–
– Fair value losses on foreign exchange forward contracts (Note 9)	**–**	72,666
– Losses on disposal of property, plant and equipment (Note 9)	**5,189**	1,609
– Gains on early termination of leasing contracts	**–**	(1,549)
– Realisation of gains from downstream transactions from associates (Note 9)	**(151)**	(151)
– Fair value losses on preferred share and other financial liabilities (Note 30)	**13,525,537**	10,563,577
– Net foreign exchange gains	**(6,110)**	(18,052)
	(421,719)	73,913
Changes in working capital		
– Increase in long-term receivables	**(149,463)**	(100,950)
– Increase in contract assets	**(20,515)**	(24,325)
– Increase in trade and other receivables	**(1,729,897)**	(331,007)
– Decrease/(increase) in inventories	**181,183**	(309,341)
– Increase in restricted cash	**–**	(326)
– (Decrease)/increase in long-term payables	**(42,624)**	66,148
– Decrease in trade and other payables	**(182,752)**	(980,886)
– (Decrease)/increase in contract liabilities	**(43,712)**	100,473
– (Decrease)/increase in deferred revenue	**(38,151)**	290,603
Net cash used in operations	**(2,447,650)**	(1,215,698)

38 CASH FLOW INFORMATION (CONTINUED)

(b) Non-cash investing and financing activities

Other than the conversion of preferred shares to Class B ordinary shares described in Note 28, there were no material non-cash transactions during the year ended 31 December 2021 (2020: nil).

(c) Net cash/(debt) reconciliation

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Cash and cash equivalents (Note 27)	**16,529,506**	11,427,871
Preferred share liabilities (Note 30(a), (b))	**(988,234)**	(50,185,657)
Other financial liabilities (Note 30(c), (d))	**(84,349)**	(14,005)
Lease liabilities (Note 17)	**(384,297)**	(293,637)
Borrowings (Note 36)	**(339,888)**	(1,016,561)
Net cash/(debt)	**14,732,738**	(40,081,989)

	Other assets	Liabilities from financing activities				
	Cash and cash equivalents RMB'000	Lease liabilities RMB'000	Preferred share and other financial liabilities RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Total RMB'000
Net debt as at 1 January 2021	**11,427,871**	**(293,637)**	**(50,199,662)**	**(593,561)**	**(423,000)**	**(40,081,989)**
Net cash flows	**5,344,967**	**141,329**	**(10,275,587)**	**612,097**	**83,353**	**(4,093,841)**
Other changes	**–**	**(232,007)**	**58,004,591**	**(19,061)**	**142**	**57,753,665**
Foreign exchange adjustments	**(243,332)**	**18**	**1,398,075**	**142**	**–**	**1,154,903**
Net cash as at 31 December 2021	**16,529,506**	**(384,297)**	**(1,072,583)**	**(383)**	**(339,505)**	**14,732,738**
Net debt as at 1 January 2020	6,672,914	(418,773)	(27,113,138)	(3,356,526)	–	(24,215,523)
Net cash flows	4,886,357	145,091	(6,846,992)	2,876,376	(441,000)	619,832
Other changes	–	(19,976)	(19,184,994)	(113,679)	18,000	(19,300,649)
Foreign exchange adjustments	(131,400)	21	2,945,462	268	–	2,814,351
Net debt as at 31 December 2020	11,427,871	(293,637)	(50,199,662)	(593,561)	(423,000)	(40,081,989)

39 CAPITAL COMMITMENTS

Significant capital expenditure commitments are set out below:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Capital investment for financial assets at fair value through profit or loss	**562,830**	–
Property, plant and equipment	**422,036**	520,400
Intangible assets	**87,984**	–
	1,072,850	520,400

40 RELATED PARTY TRANSACTIONS

The ultimate holding company of the Company is Amind Inc., a company incorporated in the Cayman Islands. The ultimate controlling shareholder of the Group is Prof. Tang.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Save as disclosed elsewhere in the financial statements, the directors of the Company are of the view that the following parties/companies were related parties that had transaction or balances with the Group:

Name of related parties	Relationship with the Group
Prof. Tang	Founder and controlling shareholder of the Group
Shanghai Artificial Intelligence Research Institute Co., Ltd. (上海人工智能研究院有限公司, "SAIRI")	Associate of the Group
Hangzhou Shang Jing Yun Intelligent Technology Co., Ltd. (杭州商警雲智能科技有限公司, "Shang Jin Yun")	Associate of the Group
Beijing Linkface Technology Co., Ltd. (北京今始科技有限公司, "Linkface")	Associate of the Group
Seno China Limited	Joint venture of the Group
Hong Kong AI & Data Laboratory Limited ("HK AI Lab")	Joint venture of the Group
Amind Holding Inc. (formerly named SenseTime Holding Limited)	Company controlled by Amind Inc.
SenseFancy Investment Limited	Company controlled by Amind Inc.
Softbank Corp.	Company controlled by a significant shareholder
Softbank Group Corp.	Company controlled by a significant shareholder
SoftBank Robotics Corp.	Company controlled by a significant shareholder

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Save as disclosed elsewhere in the financial statements, the directors of the Company are of the view that the following parties/companies were related parties that had transaction or balances with the Group: (continued)

Name of related parties	Relationship with the Group
Japan Computer Vision Corp.	Company controlled by a significant shareholder
Zhejiang Helian Network Technology Co., Ltd. (浙江禾連網絡科技有限公司, "Zhejiang Helian")	Investment with significant influence
Shandong Hoooon Toy Co., Ltd. (山東轟轟智能機器人有限公司, formerly 青島轟轟智能機器人有限公司, "Shandong Hoooon")	Investment with significant influence
Beijing Moviebook Technology Corporation Limited (北京影譜科技股份有限公司, "Beijing Moviebook Technology")	Investment with significant influence
Beijing Ling Technology Inc. (北京物靈科技有限公司, "Beijing Ling Technology")	Investment with significant influence
Zero Sports AI Beijing Co., Ltd. (賽事之窗(北京)科技有限公司, "Zero Sports AI")	Investment with significant influence
Hangzhou Seedien Technology Co., Ltd. (杭州悉點科技有限公司, "Seedien")	Investment with significant influence
Shanghai Histo Medical Pathology Diagnosis Center Co., Ltd. (上海衡道醫學病理診斷中心有限公司, "Histo Medical")	Investment with significant influence
Chengdu Lu Xingtong Information Technology Co., Ltd. (成都路行通信息技術有限公司, "Lu Xingtong")	Investment with significant influence
Shanghai Ludao Dongmei Technology Co., Ltd. (上海陸道動美科技有限公司, "Ludao Dongmei")	Investment with significant influence
MantisVision Technologies Co., Ltd. (螳螂慧視科技有限公司, "MantisVision")	Investment with significant influence
Alibaba Cloud Computing Co., Ltd. (a)	Subsidiary or affiliates of a former substantial shareholder
Alibaba East China Co., Ltd. (阿里巴巴華東有限公司) (a)	Subsidiary or affiliates of a former substantial shareholder
Alibaba Cloud (Singapore) Private Limited (a)	Subsidiary or affiliates of a former substantial shareholder
Shanghai Yibang Intelligent Technology Co., Ltd. (上海益邦智能技術股份有限公司, "Shanghai Yibang") (b)	Investment with significant influence before November 2021

(a) Taobao China Holding Limited was a substantial shareholder of the Company and appointed one director to the Company before 2021. After resignation of the director in 2020 and the continuous dilution of the shareholding percentage in the Company, Taobao China Holding Limited and its subsidiaries or affiliates were no longer the related parties of the Company since August 2021.

(b) Shanghai Yibang was no longer a related party of the Company after the Company withdrew its resident director from Shanghai Yibang on 26 November 2021 and was not able to exercise its significant influence in Shanghai Yibang.

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties

(i) Sale of products or provision of services

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Japan Computer Vision Corp.	77,466	164,403
Shanghai Yibang*	23,787	124,063
Lu Xingtong	16,500	–
Alibaba Cloud Computing Co., Ltd.	7,872	2,044
Softbank Corp.	585	–
Seedien	497	113
Shang Jing Yun	229	352
SAIRI	225	–
Zero Sports AI	52	801
Ludao Dongmei	33	–
Beijing Moviebook Technology	32	253
SoftBank Robotics Corp.	–	23,491
SenseFancy Investment Limited	–	5,777
HK AI Lab	–	279
Alibaba Cloud (Singapore) Private Limited	–	148
Alibaba East China Co., Ltd.	–	4
Shandong Hoooon	–	12
	127,278	321,740

(ii) Purchase of products or services

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Alibaba Cloud Computing Co., Ltd.	7,234	17,931
Shanghai Yibang*	5,606	–
Shandong Hoooon	3,402	2,925
Zero Sports AI	477	–
Beijing Ling Technology	4	2
	16,723	20,858

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (continued)

(iii) Purchase of property, plant and equipment and intangible assets

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Shandong Hoooon	**120**	–
Shanghai Yibang	**–**	3,159
	120	3,159

(iv) Transactions with the controlling shareholder

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Capital contribution made by:		
Prof. Tang	**10,365**	–

(c) Balances with related parties

(i) Trade receivables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Japan Computer Vision Corp.	**24,516**	15,746
Shang Jing Yun	**20,095**	19,866
Zero Sports AI	**960**	905
Seedien	**450**	–
Alibaba Cloud Computing Co., Ltd.	*	83,194
Shanghai Yibang	*	67,020
Alibaba East China Co., Ltd.	*	12
	46,021	186,743

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties (continued)

(ii) Other receivables – non-trade

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Linkface	**666**	666
Shanghai Yibang	*	13,427
	666	14,093

(iii) Trade payables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Shandong Hoooon	**2,281**	960
Shang Jing Yun	**100**	100
Alibaba Cloud Computing Co., Ltd.	*	93
Beijing Ling Technology	–	2
	2,381	1,155

(iv) Other payables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-trade		
Seno China Limited	**593**	611
Prof. Tang	–	10,385
Trade		
Zero Sports AI	**477**	–
Shandong Hoooon	**55**	–
Alibaba Cloud Computing Co., Ltd.	*	4,769
	1,125	15,765

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties (continued)

(v) Prepayment

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Alibaba Cloud Computing Co., Ltd.	*	30

(vi) Contract liabilities

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Japan Computer Vision Corp.	**995**	1,805
Shang Jing Yun	**13**	27
HK AI Lab	**7**	7
SoftBank Robotics Corp.	**5**	5
Alibaba Cloud Computing Co., Ltd.	*	5,784
Shanghai Yibang	*	1,407
	1,020	9,035

* These companies were no longer related parties of the Company and the balances and transactions with these companies weren't disclosed as related party balances and transactions since then.

The balances with related parties are unsecured, interest-free and repayable on demand.

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management compensations

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	**20,004**	21,576
Pension costs – defined contribution plans	**108**	88
Other social security costs, housing benefits and other employee benefits	**82**	71
Share-based compensation expenses	**1,220,485**	684,191
	1,240,679	705,926

41 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of every director for the year ended 31 December 2021 were set out below:

Name of Directors	Fees RMB'000	Wages and salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation expenses RMB'000	Social security costs, housing benefits and employee welfare RMB'000	Total RMB'000
Executive Directors:						
Dr. XU Li (徐立博士)	-	2,666	944	518,225	15	521,850
Prof. Tang	-	-	-	-	-	-
Dr. WANG Xiaogang (王曉剛博士)	-	2,589	795	377,719	-	381,103
Mr. XU Bing (徐冰先生)	-	2,104	942	307,335	15	310,396
Non-executive Directors:						
Ms. FAN Yuanyuan (范瑗瑗女士)	-	-	-	-	-	-
Independent non-executive Directors:						
Prof. XUE Lan (薛瀾教授)	-	-	-	-	-	-
Mr. LYN Frank Yee Chon (林怡仲先生)	-	-	-	-	-	-
Mr. LI Wei (厲偉先生)	-	-	-	-	-	-
	-	7,359	2,681	1,203,279	30	1,213,349

41 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

The remuneration of every director for the year ended 31 December 2020 were set out below:

Name of Directors	Fees RMB'000	Wages and salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation expenses RMB'000	Social security costs, housing benefits and employee welfare RMB'000	Total RMB'000
Executive Directors:						
Dr. XU Li (徐立博士)	–	2,377	1,238	353,230	16	356,861
Prof. Tang	–	–	–	–	–	–
Dr. WANG Xiaogang (王曉剛博士)	–	3,306	1,054	158,310	–	162,670
Mr. XU Bing (徐冰先生)	–	1,904	1,096	158,310	16	161,326
Non-executive Directors:						
Ms. FAN Yuanyuan (范瑗瑗女士)	–	–	–	–	–	–
Independent non-executive Directors:						
Prof. XUE Lan (薛瀾教授)	–	–	–	–	–	–
Mr. LYN Frank Yee Chon (林怡仲先生)	–	–	–	–	–	–
Mr. LI Wei (厲偉先生)	–	–	–	–	–	–
	–	7,587	3,388	669,850	32	680,857

The above tables did not include the directors resigned before the listing. No remuneration has been paid to them for the years ended 31 December 2021 and 2020.

41 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' retirement and termination benefits

No retirement or termination benefits have been paid to the Company's directors for the year ended 31 December 2021 (2020: nil).

(b) Consideration provided to third parties for making available directors' services

No consideration was provided to third parties for making available directors' services during the year ended 31 December 2021 (2020: nil).

(c) Information about loans, quasi-loans or other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans or other dealings were entered into by the Company in favor of directors, controlled bodies corporate by and connected entities with such directors during the year ended 31 December 2021 (2020: nil).

(d) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2021 (2020: nil).

42 CONTINGENCIES

As at 31 December 2021, there were no significant contingencies assets and liabilities for the Group.

43 EVENTS AFTER THE BALANCE SHEET DATE

(a) From 1 January 2022 to the date of this report, the Group signed investment contracts with certain technology companies to acquire minority equity interests in these companies. The total investment amount will be up to RMB617,207,000.

(b) On 26 January 2022, the over-allotment option of an aggregate of 225,000,000 new Class B ordinary shares has been fully exercised by the underwriters of the global offering. This will lead to an increase of share capital and other reserves by RMB36 and RMB692,807,000, respectively.

(c) On 28 January 2022, the Group entered into an agreement of intent to purchase an office property in Shanghai at the expected cash consideration of RMB3,328,283,000.

44 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**3,046,742**	1,462,817
Current assets		
Other receivables	**31,853,864**	22,467,098
Amount due from preferred shareholders	**–**	8,593,109
Cash and cash equivalents	**3,769,747**	436
	35,623,611	31,060,643
Total assets	**38,670,353**	32,523,460
Equity/(deficits)		
Share capital	**5**	2
Other reserves	**70,120,967**	(392,916)
Currency translation reserves	**1,589,946**	905,309
Accumulated losses	**(33,180,877)**	(18,214,640)
Total equity/(deficits)	**38,530,041**	(17,702,245)
Liabilities		
Non-current liabilities		
Preferred share and other financial liabilities	**–**	48,288,049
Current liabilities		
Other payables	**140,312**	26,043
Preferred share and other financial liabilities	**–**	1,911,613
	140,312	1,937,656
Total liabilities	**140,312**	50,225,705
Total equity and liabilities	**38,670,353**	32,523,460

The balance sheet of the Company was approved by the Board of Directors on 25 March 2022 and was signed on its behalf.

Xu Li	**Xu Bing**
Director	*Director*

44 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Share premium RMB'000	Share-based compensation expenses RMB'000	Other comprehensive income reserve RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	**1,058,422**	**371,307**	**(1,168,117)**	**(654,528)**	**(392,916)**
Issuance of ordinary shares from initial public offering, net of underwriting commissions and other issuance costs	**4,610,673**	**–**	**–**	**–**	**4,610,673**
Conversion of convertible redeemable preferred shares to ordinary shares	**63,077,759**	**–**	**1,296,414**	**–**	**64,374,173**
Share-based compensation expenses	**–**	**1,583,925**	**–**	**–**	**1,583,925**
Exercise of restricted shares and share options	**1,409,062**	**(1,335,653)**	**–**	**–**	**73,409**
Changes in credit risk for financial liabilities designated as at fair value through profit or loss	**–**	**–**	**(128,297)**	**–**	**(128,297)**
As at 31 December 2021	**70,155,916**	**619,579**	**–**	**(654,528)**	**70,120,967**
At 1 January 2020	364,273	165,933	(669,818)	(654,528)	(794,140)
Share-based compensation expenses	–	887,043	–	–	887,043
Exercise of restricted shares and share options	694,149	(681,669)	–	–	12,480
Changes in credit risk for financial liabilities designated as at fair value through profit or loss	–	–	(498,299)	–	(498,299)
At 31 December 2020	1,058,422	371,307	(1,168,117)	(654,528)	(392,916)

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"AI"	artificial intelligence, an area of computer science that focuses on simulating human intelligence by machines
"AI data center" or "AIDC"	a data center with AI supercomputing infrastructure and a large number of GPUs, to offer pre-trained AI models and produce new AI models
"Amind"	Amind Inc., an exempted company incorporated under the laws of the Cayman Islands with limited liability, which is wholly-owned by Prof. Tang
"Articles" or "Articles of Association"	the twenty-first amended and restated articles of association of the Company, conditionally adopted on December 3, 2021 with effect from the Listing Date, and as amended from time to time
"Auditor"	PricewaterhouseCoopers, being the external auditor of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"Class A Share(s)"	class A ordinary shares of the share capital of the Company with a par value of US$0.000000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to 10 votes per share on any resolution tabled at the Company's general meeting, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
"Class B Share(s)"	class B ordinary shares of the share capital of the Company with a par value of US$0.000000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meeting
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", "the Company", "we", "us"	SenseTime Group Inc. (商湯集團股份有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on October 15, 2014
"Compliance Advisor"	Haitong International Capital Limited, being the compliance advisor of the Company
"Consolidated Affiliated Entities"	collectively, Shanghai Qianlun and Shanghai SenseTime Technology Development, the financial results of which have been consolidated and accounted for as subsidiaries of the Company by virtue of the Contractual Arrangement

"Contractual Arrangement"	the series of contractual arrangement entered into by, among others, the VIE WFOE and the Consolidated Affiliated Entities respectively, see "Contractual Arrangement" in the Directors' Report
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Prof. Tang and Amind
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"CVPR"	Conference on Computer Vision and Pattern Recognition, an annual research conference sponsored by the IEEE
"Dr. Wang"	Dr. Wang Xiaogang, our co-founder, executive Director, chief scientist and a WVR Beneficiary
"ECCV"	European Conference on Computer Vision, a biennial research conference
"ESG"	environmental, social and governance
"ESG Reporting Guide"	the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules
"GAAP"	generally accepted accounting principles
"Global Offering"	the global offering in respect of 1,500,000,000 Class B Shares which was completed on the Listing Date
"Group", "our Group", or "the Group"	the Company and its subsidiaries and Consolidated Affiliated Entities from time to time
"ICCV"	International Conference on Computer Vision, a biennial research conference sponsored by the IEEE
"IEEE"	Institute of Electrical and Electronics Engineers, the world's largest association of technical professionals established for the advancement of technology
"IJCV"	International Journal of Computer Vision, a leading journal on computer vision
"Independent Third Party(ies)"	individual(s) or company(ies) who or which, to the best of the Director's knowledge having made all due and careful enquiries, is/are independent from and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates

Definitions

"Infinity Vision"	Infinity Vision Enterprise Inc., a business company incorporated under the laws of BVI with limited liability, which is wholly-owned by Dr. Wang
"Joint Company Secretaries"	the joint company secretaries of the Company
"Latest Practicable Date"	April 22, 2022, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained in this annual report
"Listing Date"	December 30, 2021, being the date on which dealings in the Class B Shares first commenced on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Memorandum" or "Memorandum of Association"	the twenty-first amended and restated memorandum of association of the Company, conditionally adopted on December 3, 2021 with effect from the Listing Date, and as amended from time to time
"MIIT"	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"PRC" or "China"	the People's Republic of China
"Pre-IPO ESOP"	the pre-IPO employee incentive scheme adopted by the Company dated November 1, 2016 as amended from time to time, the principal terms of which are set out in "Share Incentive Schemes – Pre-IPO ESOP" in the Directors' Report
"Pre-IPO RSU Plan"	the pre-IPO RSU plan adopted by the Company dated November 1, 2016 as amended from time to time, the principal terms of which are set out in "Share Incentive Schemes – Pre-IPO RSU Plan" in the Directors' Report
"Prof. Tang"	Professor Tang Xiao'ou, our founder, executive Director and a WVR Beneficiary
"Prospectus"	the prospectus of the Company dated December 7, 2021, as amended and supplemented by the supplemental prospectus of the Company dated December 20, 2021
"Reporting Period"	the year ended December 31, 2021

"Reserved Matters"	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum of Association or Articles of Association; (ii) the variation of rights attached to any class of shares; (iii) the appointment, election or removal of any independent non-executive Director; (iv) the appointment, election or removal of the Company's auditor; and (v) the voluntary liquidation or winding-up of the Company
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SDK"	software development kit, a set of software development tools in one installable package that can be used to create and develop applications
"SenseBlue"	SenseBlue Management L.P., an exempted limited partnership established under the laws of the Cayman Islands, whose general partner is SenseFancy
"SenseFancy"	SenseFancy Investment Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability, which is indirectly wholly-owned by Amind
"SenseForest"	SenseForest Management L.P., an exempted limited partnership established under the laws of the Cayman Islands, whose general partner is SenseFancy
"SenseLight"	SenseLight Management L.P., an exempted limited partnership established under the laws of the Cayman Islands, whose general partner is SenseFancy
"SensePoint"	SensePoint Management L.P., an exempted limited partnership established under the laws of the Cayman Islands, whose general partner is SenseFancy
"SenseSmart"	SenseSmart Management L.P., an exempted limited partnership established under the laws of the Cayman Islands, whose general partner is SenseFancy
"SenseSpace"	SenseSpace Management L.P., an exempted limited partnership established under the laws of the Cayman Islands, whose general partner is SenseFancy
"SenseTalent"	SenseTalent Management Limited, a business company incorporated under the laws of BVI with limited liability holding our ordinary Shares pursuant to the Pre-IPO ESOP and the Pre-IPO RSU Plan
"SenseTime HK"	SenseTime Group Limited 商湯集團有限公司, a company incorporated under the laws of Hong Kong with limited liability on October 30, 2014, our direct wholly-owned subsidiary

Definitions

"SenseVision"	SenseVision Management L.P., an exempted limited partnership established under the laws of the Cayman Islands, whose general partner is SenseFancy
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Qianlun"	Shanghai Qianlun Technology Co., Ltd. (上海阡倫科技有限公司), a company incorporated under the laws of the PRC with limited liability on September 17, 2020, our Consolidated Affiliated Entity
"Shanghai SenseTime Technology Development"	Shanghai SenseTime Technology Development Co., Ltd. (上海商湯科技開發有限公司), a company incorporated under the laws of the PRC with limited liability on January 16, 2020, our Consolidated Affiliated Entity
"Shanghai Yuqin"	Shanghai Yuqin Information Technology Co., Ltd. (上海煜芩信息科技有限公司), a company incorporated under the laws of the PRC with limited liability on March 20, 2019, our indirect wholly-owned subsidiary
"Share(s)"	the Class A Shares and the Class B Shares in the share capital of our Company, as the context so requires
"Shareholder(s)"	holder(s) of the Shares
"State Council"	the PRC State Council (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"VIE WFOE"	Shanghai Yuqin
"Vision Worldwide"	Vision Worldwide Enterprise Inc., a business company incorporated under the laws of BVI with limited liability which is wholly-owned by Mr. Xu Bing
"WVR Beneficiaries"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Prof. Tang, Dr. Xu Li, Dr. Wang and Mr. Xu Bing, being the holders of the Class A Shares, entitling each to weighted voting rights, see "Weighted Voting Rights" in the Directors' Report
"WVR Structure"	has the meaning ascribed to it in the Listing Rules
"XWorld"	XWORLD Enterprise Inc., a business company incorporated under the laws of BVI with limited liability which is wholly-owned by Dr. Xu Li

Notes:

1. In this annual report, the terms "associate", "close associate", "connected person", "core connected person", "connected transaction", "controlling shareholder" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

2. Certain amounts and percentage figures included in this annual report have been subject to rounding.

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