# SUMMARY

*This summary aims to give you an overview of the information contained in this Document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to* [**REDACTED**] *in the* [**REDACTED**].

*There are risks associated with any* [**REDACTED**]. *Some of the particular risks in* [**REDACTED**] *in the* [**REDACTED**] *are set out in the section headed "Risk Factors" in this Document. You should read that section carefully before you decide to* [**REDACTED**] *in the* [**REDACTED**].
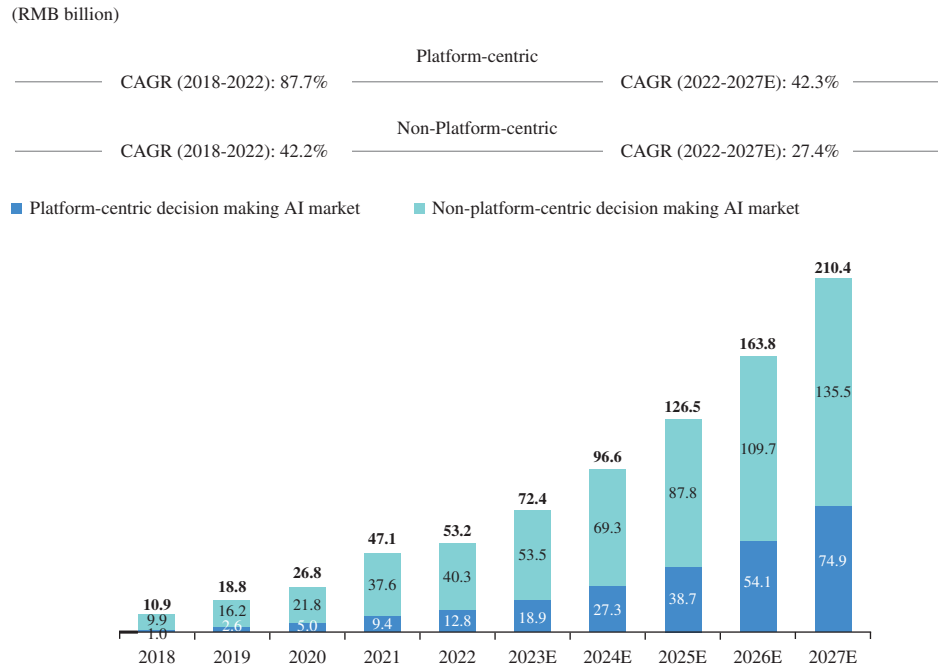
## OVERVIEW

We are a leader in enterprise AI. We are an AI software company which focuses on providing platform-centric AI software which enables enterprises to develop their own decision-making AI applications. Our enterprise-level solutions are designed to serve enterprises, rather than individuals. We offer platform-centric AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and comprehensively enhance their decision-making capabilities.

We were the largest player by revenue in the platform-centric decision-making AI market, a sub-segment of the AI market, in China in 2022, according to the CIC Report. China's AI industry can be categorized into four major segments in terms of fields of application: decision-making AI, visual AI, speech and semantics AI and AI robots. Decision-making AI recognizes patterns hidden in data, guides decision-making process on data insights, and addresses issues that are most pertinent to core business operations. Within the decision-making AI market, the platform-centric decision-making AI market in China is a vastly expanding subsegment. As opposed to non-platform-centric solutions, platform-centric solutions provide end users with an AI development platform in addition to AI applications and underlying computing infrastructure. Such platforms provide end users with uniform development standards, high compatibility as well as flexible expansion of applications per actual demands. The following table sets forth a breakdown of China's decision-making AI industry for the periods indicated.

# SUMMARY

**Market Size of Decision Making AI Market in China, 2018A-2027E**

(RMB billion)

Platform-centric
CAGR (2018-2022): 87.7%          CAGR (2022-2027E): 42.3%

Non-Platform-centric
CAGR (2018-2022): 42.2%          CAGR (2022-2027E): 27.4%

■ Platform-centric decision making AI market     ■ Non-platform-centric decision making AI market

| Year | Total | Non-platform-centric | Platform-centric |
|------|-------|----------------------|------------------|
| 2018 | 10.9 | 9.9 | 1.0 |
| 2019 | 18.8 | 16.2 | 2.6 |
| 2020 | 26.8 | 21.8 | 5.0 |
| 2021 | 47.1 | 37.6 | 9.4 |
| 2022 | 53.2 | 40.3 | 12.8 |
| 2023E | 72.4 | 53.5 | 18.9 |
| 2024E | 96.6 | 69.3 | 27.3 |
| 2025E | 126.5 | 87.8 | 38.7 |
| 2026E | 163.8 | 109.7 | 54.1 |
| 2027E | 210.4 | 135.5 | 74.9 |

*Source: CIC Report*

We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. For example, according to CIC, our proprietary AutoML algorithm is a cutting-edge AutoML algorithm in the world. With our AutoML algorithms, we broke the world records of two Open Graph Benchmark ("OGB") tasks in April 2021. Our AutoML algorithm also ranks top 1% in Kaggle Structured Data and Image Classification Competition 2019. For details, see "Business – Our Technology – AutoML."

We emphasize value creation. Our solutions have created value for enterprises in a myriad of industries including, but not limited to, finance, retail, manufacturing, energy and power, telecommunications and healthcare. For example, our AI solutions have successfully helped banks enhance anti-fraud accuracy rate, retailers forecast sales volume and formulate precision marketing strategies, manufacturers optimize quality control, and energy companies detect and prevent equipment anomalies and failures. In 2020, 2021 and 2022, we had 47, 75 and 104 lighthouse users, namely Global Fortune 500 companies and publicly listed companies, respectively.

Our platform-centric AI solutions seek to overcome challenges faced by in-house development of AI capabilities and point solutions that are designed for scenario-specific use cases, and allow enterprises to benefit from the advancement of AI technologies to the largest extent possible. We believe, however, that large-scale AI transformation faces the key challenges including shortage of experts, high total cost of ownership, long deployment time and data and software incompatibility. Our platform-centric AI solutions seek to overcome challenges faced by in-house development of AI capabilities and point solutions that are

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designed for scenario-specific use cases, allowing us to capture the massive market opportunities in enterprise AI application. For details, see "Business – Our Market Opportunities" and "Industry Overview – Decision-Making AI Market in China." Leveraging our core technologies, we have developed end-to-end enterprise AI solutions, which include optional bundling infrastructure, operating system, AI developer suites and applications, that cater for enterprises' needs across application, platform and infrastructure levels. Sage Platform is the backbone of our solutions. It allows enterprises to easily build their customized AI systems that automate the process of machine learning, application, decision-making and evaluation driven by our AutoML algorithms, featuring quick, simple build-up, low- and/or no-code environment, and implementation without significant involvement of AI experts. Our Sage Platform is primarily composed of the following:

- Sage AIOS is an AI operating system featuring a user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating systems. Specifically, Sage AIOS provides a more user-friendly interface to visualize AI application development and management. Characterized by its user-friendly interface on which users can easily and conveniently design, develop and operate numerous AI applications, Sage AIOS is able to empower enterprises to deploy AI on a large scale. Based on multiple versions of products and underlying technology previously developed by us, we officially launched Sage AIOS in August 2020, an upgraded and integrated AI operating system with expanded features.

- HyperCycle series with no-code development tools and Sage Studio series with low-code and no-code development tools are our core platform-centric AI solutions by which our users can quickly and easily deploy large-scale AI applications.

In addition, we offer ready-to-use AI applications that users could directly deploy to improve their business operations, primarily in the fields of sales and marketing, risk management and operating efficiency in general. We also help users develop customized AI applications on Sage Platform to address their specific business needs.

During the Track Record Period, we have experienced tremendous growth. Our revenue grew by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, and further by 52.7% to RMB3,082.6 million in 2022. In line with our revenue growth, we have also experienced increase in our trade receivables, including trade receivables aged over six months. As of December 31, 2020, 2021 and 2022, our trade receivables were RMB262.7 million, RMB778.3 million and RMB1,493.2 million, respectively. For details, see "– Business Sustainability and Path to Profitability – Working Capital Sufficiency."

## SUMMARY

**OUR COMPETITIVE STRENGTHS**

We believe the following strengths contribute to our success and differentiate us from our competitors:

- Our leading position in platform-centric enterprise AI solutions and core technologies;

- Our end-to-end AI solutions with strong value proposition, continuously driving user success;

- High quality, diverse and loyal user base resulting from our levered go-to-market strategy;

- AI ecosystem to ensure sustainable long-term growth; and

- Strong, experienced and elite management combining academic excellence and business insights.

**OUR STRATEGIES**

We intend to pursue the following strategies to achieve our long-term goal of helping enterprises achieve AI transformation:

- Further strengthen our R&D capabilities;

- Continue to create value for users and establish industry standards;

- Strengthen collaboration with business partners within our ecosystem; and

- Enhance our commercialization capabilities.

**OUR ENTERPRISE AI SOLUTIONS**

Driven by our mission to empower AI transformation and advance AI for all businesses, we have developed Sage Platform, a full suite of end-to-end AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and facilitate decision-making beyond human capability. Our innovative Sage Platform empowers enterprises with AI development and management capabilities, and enables them to design, develop, and operate AI applications at scale. The plug-and-play and low- and/or no-code nature of Sage Platform lowers the barrier of AI deployment, enabling large-scale deployment within a few days and without involvement of experts or other personnel with significant experience in AI.

- Sage AIOS is an AI operating system featuring user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating systems. Based on multiple versions of products and underlying technology previously developed by us, we officially launched Sage AIOS in August 2020, an upgraded and

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integrated AI operating system with expanded features. Specifically, Sage AIOS provides a more user-friendly interface to visualize AI application development and management. Characterized by its user-friendly interface on which users can easily and conveniently design, develop and operate numerous AI applications, Sage AIOS is able to empower enterprises to deploy AI on a large scale. In addition, as compared to the earlier versions, Sage AIOS standardizes the formats of AI data and resources management, thereby further enhancing the efficiency of AI deployment on a large scale. The earlier versions of Sage Platform only supports our proprietary AI developer suites and self-developed applications, while Sage AIOS is able to support applications developed by other parties, and thus enhances our AI ecosystem. Major components of Sage AIOS include data kernel and runtime kernel. Data kernel is a platform for AI data. By defining the standards and formats of data that are ready for AI applications, data kernel enables users to comprehensively enhance its data quality and modeling efficiency. Runtime kernel is a centralized management kernel for multi-layer computation, memory and communication. Runtime kernel is capable of automatically scheduling and managing heterogeneous resources without affecting user experience, thereby enhancing computation resource utilization rates, and optimize the efficiency of developing AI models and applications.

- Built on Sage AIOS, there are two AI developer suites, for which users can choose depending on their coding capabilities, one being the HyperCycle series with no-code development tool and the other one being the Sage Studio series with low-code and no-code development tools. AI applications in different use cases require different types of algorithms. Accordingly, at the users' choice based on the types of AI applications they want to develop, we offer HyperCycle ML, HyperCycle CV, HyperCycle OCR, HyperCycle KB, ML Studio, CV Studio, NLP Studio and Speech Studio, among others.

On top of our Sage Platform, we also offer a large and growing portfolio of scenario-specific AI applications that address a range of mission-critical use cases and can be readily installed and deployed. Our AI applications are primarily used in areas including sales and marketing, risk management and operating efficiency enhancement. Moreover, in June 2021, we launched our enterprise-level AI application store, which is a marketplace for AI applications at the choice of our users. It integrates a cluster of AI applications developed by us and our partners in the ecosystem on Sage AIOS using our algorithms and standards, thereby readily addressing users' needs for intelligent operations in different use cases. We do not separately charge the ready-to-use AI applications on our Sage Platform. At our users' request, we also offer application development services to help them develop customized AI applications on Sage Platform based on their business needs.

Based on the needs of users, we also offer optional bundled infrastructure, which primarily represent SageOne, our software-defined "All-in-One" solutions with pre-built Sage Platform and applications on servers and other related hardware. SageOne maximizes the synergistic effect between software and hardware. Leveraging software-defined optimization of computing, network and storage resources, SageOne improves the output and performance of our AI solutions as compared to running on conventional and generalized architecture servers, thereby empowering organizations to rapidly enhance intelligence in their operations.

# SUMMARY

The following diagram illustrates our solution offerings:



*Optional Bundling Infrastructure*
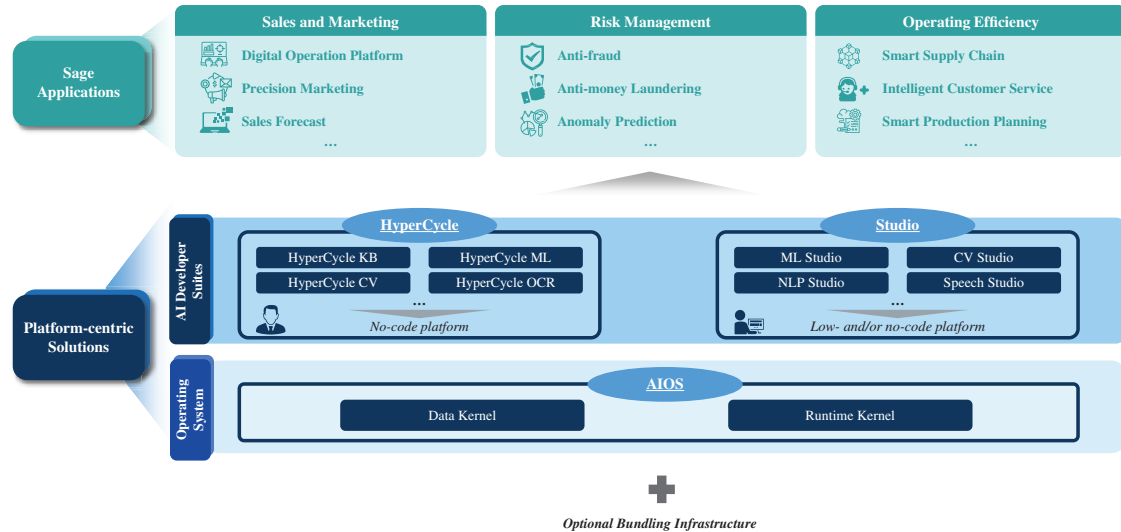
## REVENUE MODEL

We generate our revenue primarily from (i) Sage Platform and applications and (ii) application development and other services.

The following table sets forth a breakdown of our revenues by types of solutions for the years indicated:

| | For the year ended December 31, | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **2020** | | **2021** | | **2022** | |
| | **RMB** | **%** | **RMB** | **%** | **RMB** | **%** |
| | *(in thousands, except for percentages)* | | | | | |
| **Sage Platform and applications** | | | | | | |
| Software licensing | 157,888 | 16.8 | 356,156 | 17.6 | 596,001 | 19.3 |
| SageOne | 461,041 | 48.9 | 658,398 | 32.7 | 895,850 | 29.1 |
| **Sub-total** | 618,929 | 65.7 | 1,014,554 | 50.3 | 1,491,851 | 48.4 |
| **Application development and other services** | 323,309 | 34.3 | 1,003,845 | 49.7 | 1,590,786 | 51.6 |
| **Total** | 942,238 | 100.0 | 2,018,399 | 100.0 | 3,082,637 | 100.0 |

## SUMMARY

As a platform-centric AI solution provider, we have been dedicated to updating our solutions to provide end users across different industries with unified development environment, standards and rules and to enhance the compatibility of our solutions. As a result of our continuous iteration and optimization efforts, Sage Platform can be generally applied by end users in different industries which do not require significant customization. Our revenue generated from Sage Platform and applications as a percentage of our total revenue decreased from 65.7% in 2020 to 50.3% in 2021 and further decreased to 48.4% in 2022, as the percentage of total revenue attributed to our application development and other services increased over the same years, driven by the increased demand for customized AI applications due to the expansion of our user base in 2021 and 2022, and to a lesser extent, attributable to the recovery from the negative impact of COVID-19.

**Sage Platform and Applications**

Sage Platform and applications are delivered primarily through (i) license of software installed on-premise at servers of our end users and (ii) SageOne, our "All-in-One" solutions with pre-installed software on servers and other related hardware, both of which allow our users to develop their own AI applications on Sage Platform. Our Sage Platform and applications are offered as a bundle. Users select the types of Sage Platform and applications and the delivery method based on their needs.

Our Sage Platform and applications are primarily offered through software license and sale of SageOne, rather than on a subscription basis. We are dedicated to creating value for users and addressing their business needs with our solutions. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they will make repeated purchases from us after identifying incremental business needs for AI application within their operations, and expanding their use of our solutions. As our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities after the initial sale. The pricing of Sage Platform and applications are primarily based on the estimated computing power consumption. Based on communications with users, we understand their business needs and estimate the computing power consumption based on the complexity of the use cases, dimensions of the AI models, and the estimated amount of data involved therein.

- The price of our software license is primarily based on the estimated computing power consumption by reference to the AI applications our users plan to deploy. We consider data volume and other specific requests such as the latency, concurrency, queries per seconds, and the number of replicas, among others.

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- To complement the sales of software, we also offer SageOne, our software-defined "All-in-One" solutions with pre-built Sage Platform and applications on servers and other related hardware. We charge customers of SageOne by taking into account the number of hardware units, license fees of our software and cost of hardware based on respective model. Hardware units of SageOne refer to units of different models of servers.

**Application Development and Other Services**

At our users' request, we primarily offer application development services to help them develop customized AI applications on Sage Platform based on their business needs. We charge them on a project basis, the pricing of which is primarily based on the manpower consumption of the relevant services. As our users' demand for AI applications increases with their business expansion, they will continue to procure our application development services, allowing us to capture more service fees on an on-going basis.

**OUR CUSTOMERS**

We have two main categories of customers: (i) direct customers who are end users purchasing our solutions directly; and (ii) solution partner customers, who are mainly third-party system integrators that embed our solutions into their offering to cater for end users' specific needs. In 2020, 2021 and 2022, revenue generated from direct customers accounted for 15%, 43% and 32% of our total revenue, respectively. In 2020, 2021 and 2022, revenue generated from solution partner customers accounted for 85%, 57% and 68% of our total revenue, respectively. We typically grant a credit term ranging from 3 to 6 months for direct customers and solution partner customers. Our top five customers in each year during the Track Record Period in aggregate accounted for 17.4%, 11.1% and 25.8% of our total revenues in 2020, 2021 and 2022, respectively. Our largest customer in each year during the Track Record Period accounted for approximately 5.2%, 2.8% and 9.6% of our total revenue in 2020, 2021 and 2022, respectively.

Our end users, which are the actual users of our platform, include both our direct customers and end users which engaged by solutions partners. Certain end users of our solutions, especially banks and other companies in the finance industry, use system integrators when selecting suppliers or service providers, to save them from the trouble of directly negotiating with a large number of different suppliers or service providers and to benefit from the various other services provided by such system integrators. For lighthouse users, we either directly enter into contracts with them or through solution partners. Our lighthouse users are primarily covered by our in-house sales team who promote our solutions to such lighthouse users, and the ultimate decisions as to choose our solutions are primarily made by the lighthouse users.

## SUMMARY

The following table sets forth the revenue contribution by industry of our end users during the Track Record Period.

| | For the year ended December 31, | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **2020** | | **2021** | | **2022** | |
| | **Transaction Amounts** | **Percentage of Total Revenue** | **Transaction Amounts** | **Percentage of Total Revenue** | **Transaction Amounts** | **Percentage of Total Revenue** |
| | *(RMB'000)* | | *(RMB'000)* | | *(RMB'000)* | |
| Energy and Power | 138,294 | 14.7% | 441,964 | 21.9% | 626,549 | 20.3% |
| Finance | 292,469 | 31.0% | 576,550 | 28.6% | 519,630 | 16.9% |
| Transportation | nil | nil | nil | nil | 405,016 | 13.1% |
| Telecommunication | 73,145 | 7.8% | 175,380 | 8.7% | 328,372 | 10.7% |
| Technology | 64,496 | 6.9% | 138,482 | 6.9% | 298,988 | 9.7% |
| Education | 66,665 | 7.1% | 124,228 | 6.2% | 235,170 | 7.6% |
| Manufacturing | 23,833 | 2.5% | 102,461 | 5.1% | 201,686 | 6.5% |
| Retail | 100,812 | 10.7% | 176,758 | 8.8% | 132,172 | 4.3% |
| Healthcare | nil | nil | 57,359 | 2.8% | 101,876 | 3.3% |
| Media | 53,955 | 5.7% | 134,660 | 6.7% | 29,698 | 1.0% |
| Others | 128,569 | 13.6% | 90,556 | 4.5% | 203,480 | 6.6% |
| **Total** | 942,238 | 100.0% | 2,018,399 | 100.0% | 3,082,637 | 100.0% |

## OUR SUPPLIERS

Our suppliers primarily consist of (i) providers of research and development services, (ii) providers of implementation services and (iii) providers of servers and cloud services and providers of other professional services. Our top five suppliers in each year during the Track Record Period in aggregate accounted for 13.7%, 21.7% and 26.4% of our total purchases in 2020, 2021 and 2022, respectively. Our largest supplier in 2020, 2021 and 2022 accounted for approximately 3.4%, 6.5% and 10.1% of our total purchases in the same years, respectively.

## COMPETITION

We face competition in China's decision-making AI market from other AI solution providers. The principal competitive factors in our industry include functionality, scope and performance of solutions, scalability and reliability of services, technology capabilities, marketing and sales capabilities, user experience, pricing, brand recognition and reputation. In addition, new and enhanced technology may further increase competition in our industry. We believe that we are well positioned to compete effectively on the basis of the foregoing factors.

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Nevertheless, some of our existing competitors have greater name recognition, broader global footprint, longer operating histories, larger user bases as well as greater financial, technical and other resources. See "Risk Factors – Risks Related to Our Business and Industry – If we fail to compete effectively, our business, financial condition and results of operations may be materially and adversely affected" in this Document. For more information on the competitive landscape of our industry, see "Industry Overview."

### RISK FACTORS

Our business faces risks including those set out in the section headed "Risk Factors." As different [REDACTED] may have different interpretations and criteria when determining the significance of a risk, you should read the "Risk Factors" section in its entirety before you decide to [REDACTED] in our H Shares. Some of the major risks that we face include:

- AI technologies are constantly evolving. Any flaws or inappropriate usage of AI technologies, whether actual or perceived, whether intended or inadvertent, whether committed by us or by other third parties, could have negative impact on our business, reputation and the general acceptance of AI solutions by the society.

- Our business depends substantially on continuing efforts of our senior management and other key personnel, as well as a competent pool of talents who support our existing operations and future growth. If we are unable to retain, attract, recruit and train such personnel, our business may be materially and adversely affected.

- The industries in which we operate are characterized by constant changes. If we fail to continuously innovate our technology and provide useful solutions that meet the expectations of our customers, our business, financial condition and results of operations may be materially and adversely affected.

- We may not be able to sustain our historical growth rates, and our historical growth may not be indicative of our future growth or financial results.

- We are investing heavily on our research and development, and such investment may negatively impact our profitability and operating cash flow in the short term and may not generate the results we expect to achieve.

- We have recorded net losses, net liabilities and operating cash outflow during the Track Record Period, and we may not be able to achieve or subsequently maintain profitability.

- Our solutions are primarily not offered on a recurring subscription basis. If we fail to retain existing customers, attract new customers or increase the spending by our customers, our business and results of operations may be materially and adversely affected.

- If we fail to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.

- We may be subject to complex and evolving laws and regulations regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws and regulations could damage our reputation, deter current and potential customers from using our solutions and could subject us to significant legal, financial and operational consequences.

- We are subject to the risks associated with international trade policies, geopolitics and trade protection measures, and our business, financial condition and results of operations could be adversely affected. Effective March 2, 2023, BIS added certain entity(ies) to the Entity List, which restricts their ability to purchase or otherwise access certain goods, software and technology.

- The trading price of our H Shares may be volatile, which could result in substantial losses to you.

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## SUMMARY OF KEY FINANCIAL INFORMATION

The following tables summarize our consolidated financial results during the Track Record Period and should be read in conjunction with the section headed "Financial Information" of this Document and the Accountant's Report set out in Appendix I to this Document, together with the respective accompanying notes.

### Summary of Statements of Comprehensive Income

| | For the year ended December 31, | | |
| --- | --- | --- | --- |
| | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | |
| **Revenue** | 942,238 | 2,018,399 | 3,082,637 |
| Cost of sales[1] | (512,503) | (1,064,924) | (1,595,991) |
| **Gross profit** | 429,735 | 953,475 | 1,486,646 |
| Selling and marketing expenses[1] | (247,829) | (455,001) | (412,152) |
| General and administrative expenses[1] | (246,493) | (541,730) | (527,638) |
| Research and development expenses[1] | (565,674) | (1,249,485) | (1,650,010) |
| Credit loss allowance | (1,992) | (15,206) | (48,914) |
| Other income | 42,583 | 41,627 | 62,662 |
| Other gains, net | 29,604 | 93,514 | 63,504 |
| **Operating loss** | (560,066) | (1,172,806) | (1,025,902) |
| Share of (losses)/profits of investments accounted for using the equity method | (6,477) | 3,802 | (3,200) |
| Finance income | 6,038 | 24,416 | 46,183 |
| Finance costs | (188,978) | (647,111) | (682,175) |
| **Loss before income tax** | (749,483) | (1,791,699) | (1,665,094) |
| Income tax (expenses)/credit | (727) | (10,369) | 11,673 |
| **Loss for the year** | (750,210) | (1,802,068) | (1,653,421) |

# SUMMARY

*Note:*

(1)     Share-based compensation expenses recognized for the Track Record Period were allocated as follows:

| | For the year ended December 31, | | |
| --- | --- | --- | --- |
| | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | |
| Cost of sales | 1,104 | 4,603 | – |
| Selling and marketing expenses | 20,726 | 98,341 | 8,756 |
| General and administrative expenses | 126,467 | 368,250 | 278,629 |
| Research and development expenses | 25,368 | 132,440 | 146,018 |
| **Total** | 173,665 | 603,634 | 433,403 |

## Non-IFRS Measures

To supplement our consolidated financial statements presented in accordance with IFRS, we use adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that these measures provide useful information to [REDACTED] in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) 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 [REDACTED] should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS.

### *Adjusted Operating Loss and Adjusted Net Loss (non-IFRS measures)*

We define adjusted operating loss (a non-IFRS measure) as operating loss by adding back share-based compensation and [REDACTED] expenses. We define adjusted net loss (a non-IFRS measure) as loss for the year by adding back share-based compensation, interest expense on redemption liabilities and [REDACTED] expenses. The following table reconciles our adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely operating loss and net loss, respectively, and as a percentage of our total revenue.

| | For the year ended December 31, | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **2020** | | **2021** | | **2022** | |
| | **RMB** | **%** | **RMB** | **%** | **RMB** | **%** |
| | *(RMB in thousands, except for percentage)* | | | | | |
| **Reconciliation of operating loss and adjusted operating loss** | | | | | | |
| Operating loss | (560,066) | (59.4) | (1,172,806) | (58.1) | (1,025,902) | (33.3) |
| Add: | | | | | | |
| Share-based compensation | 173,665 | 18.4 | 603,634 | 29.9 | 433,403 | 14.1 |
| [REDACTED] expenses | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Adjusted operating loss** | (386,401) | (41.0) | (568,500) | (28.2) | (547,779) | (17.8) |

## SUMMARY

| | For the year ended December 31, | | | | | |
| | 2020 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % |
|---|---|---|---|---|---|---|
| | *(RMB in thousands, except for percentage)* | | | | | |
| **Reconciliation of loss for the year and adjusted net loss** | | | | | | |
| Loss for the year | (750,210) | (79.6) | (1,802,068) | (89.2) | (1,653,421) | (53.6) |
| Add: | | | | | | |
| Share-based compensation | 173,665 | 18.4 | 603,634 | 29.9 | 433,403 | 14.1 |
| Interest expense on redemption liabilities | 186,240 | 19.8 | 638,682 | 31.6 | 670,963 | 21.8 |
| [REDACTED] expenses | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Adjusted net loss** | (390,305) | (41.4) | (559,080) | (27.7) | (504,335) | (16.4) |

Our management considers that (i) share-based compensation, which relates to options and shares that we awarded to our employees for their contribution to us, is non-cash in nature and does not result in cash outflow, (ii) interest expense on redemption liabilities is a non-cash item, and (iii) [REDACTED] expenses, which relate to this [REDACTED]. Therefore, by eliminating the impacts of such items in the calculation of non-IFRS adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure), this measure could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year.

### Description of Key Statement of Comprehensive Income Items

In 2020, 2021 and 2022, we had revenue of RMB942.2 million, RMB2,018.4 million and RMB3,082.6 million, respectively. Increases in our revenue were primarily driven by the expansion of our user base and the increased spending of our users. More specifically, our revenue increased by 52.7% from 2021 to 2022, primarily driven by the expansion of our user base, as well as increased user spending. Our revenue increased by 114.2% from 2020 to 2021, primarily attributable to the increase generated by our application development and other services due to (i) the increase of our use cases and users that need customized AI applications on Sage Platform, and (ii) the recovery from the negative impact of COVID-19 pandemic. In line with our revenue growth, our gross profit was RMB429.7 million, RMB953.5 million and RMB1,486.6 million in 2020, 2021 and 2022, respectively. Our overall gross profit margin increased from 45.6% in 2020 to 47.2% in 2021, primarily due to the increase of revenue contribution of application development and other services, which had relatively high gross profit margins, mainly as a result of recovery from the negative impact of COVID-19, and further to 48.2% in 2022, mainly as a result of the increase of revenue contribution of software licensing, which had relatively high gross profit margins, as software licensing requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022.

In 2020 and 2021, we incurred net loss of RMB750.2 million and RMB1,802.1 million, respectively. The increases in net losses were primarily due to the increases of: (i) research and development expenses incurred to develop and enhance our solutions and technology stacks, (ii) selling and marketing expenses incurred to increase our brand awareness and expand our user base, (iii) general and administrative expenses, which are mainly attributable to share-based compensation paid to our employees, and (iv) interest expense on redemption

## SUMMARY

liabilities in relation to certain nonrecurring preferred rights granted to our investors. Our net loss decreased from RMB1,802.1 million to RMB1,653.4 million from 2021 to 2022, primarily due to the decrease of our share-based compensation expenses.

For details, see "Financial Information – Description of Key Statement of Comprehensive Income Items."

**Business Sustainability and Path to Profitability**

*Introduction*

We were loss-making during the Track Record Period. In 2020, 2021 and 2022, we incurred net loss of RMB750.2 million, RMB1,802.1 million and RMB1,653.4 million, respectively. The net losses were primarily due to the substantial amount of: (i) research and development expenses incurred to develop and enhance our solutions and technology stacks, see "Business – Research and Development," (ii) selling and marketing expenses incurred to increase our brand awareness and expand our user base, (iii) general and administrative expenses, which are mainly attributable to share-based compensation paid to our employees, and (iv) interest expense on redemption liabilities in relation to certain preferred rights granted to our investors, which is non-recurring in nature. In 2020, 2021 and 2022, our adjusted net loss (a non-IFRS measure), which is defined as loss for the year by adding back share-based compensation, interest expense on redemption liabilities and [**REDACTED**] expenses, amounted to RMB390.3 million, RMB559.1 million and RMB504.3 million, respectively. Our net loss increased from RMB750.2 million in 2020 to RMB1,802.1 million in 2021, primarily due to the substantial amount of (i) share-based compensation paid to our employees recognized as cost of sales, selling and marketing expenses, general and administrative expenses and research and development expenses and (ii) interest expense on redemption liabilities in relation to certain preferred rights granted to our investors, which is non-recurring in nature. Our net loss decreased from RMB1,802.1 million in 2021 to RMB1,653.4 million in 2022, primarily due to the decrease of our share-based compensation expenses. As we are still at a relatively early stage of our monetization efforts, we have been focusing on continuously optimizing our solutions and expanding our user base.

We plan to continue to enhance our financial performance by (i) effectively attracting and retaining our users, (ii) continuing to create value for users to further monetize our solutions, and (iii) effectively managing our cost and expenses, and enhancing operating leverage. Despite our continued expansion in user base, increase in average revenue per lighthouse user and enhanced capability to manage our cost and expenses, **we may continue to incur net losses and net operating cash outflow in the near future, including the year ended December 31, 2023**, mainly due to our continued investments in research and development of our technologies and solutions, marketing initiatives as well as share-based compensation.

# SUMMARY

## *Effectively attracting and retaining our users*

Effectively attracting new users and retaining existing users is crucial to driving revenue growths, and ultimately our ability to achieve profitability. The following table sets forth the numbers of our users and lighthouse users for the years indicated:

| | For the year ended December 31, | | |
| --- | --- | --- | --- |
| | **2020** | **2021** | **2022** |
| Number of users | 156 | 245 | 409 |
| Number of lighthouse users for the previous year | 32 | 47 | 75 |
| Additions | 21 | 33 | 36 |
| Less[1] | 6 | 5 | 7 |
| Number of lighthouse users for the year | 47 | 75 | 104 |

*Note:*

(1)  Refers to lighthouse users in the previous year that ceased to be regarded as our lighthouse users in the given year. However, the business relationship with such users has not been terminated. We have been providing ongoing supporting services to such lighthouse users under our standard service arrangement. Such users ceased to be our lighthouse users in the given year solely because we did not generate revenue from such users in such year from an accounting perspective.

As a result of our effective go-to-market strategy, we had 47, 75 and 104 lighthouse users in 2020, 2021 and 2022, respectively. In 2020, 2021 and 2022, we acquired 21, 33 and 36 new lighthouse users, respectively, illustrating the value of our solutions and our ability to expand our business. Lighthouse users refer to end users of Sage Platform which are either Global Fortune 500 companies or publicly listed companies. Our lighthouse users contributed 61%, 51% and 60% of our total revenue in 2020, 2021 and 2022, respectively. Therefore, growth in revenue from lighthouse users is a key driver in our overall revenue growth. Moreover, our expanding base of lighthouse users also help us to attract other users, which in turn further drives our revenue growth. Our initial success with lighthouse users enables us to further penetrate the respective industry and provide solutions to other players in the industry efficiently. As a result, we have accumulated a strong and rapidly growing total user base including both lighthouse users and other users, with 156, 245 and 409 users in 2020, 2021 and 2022, respectively. The effectiveness of our go-to-market strategy is evidenced by the rapid growth in the number of other users during the Track Record Period, representing a CAGR of 67.3% from 2020 to 2022, as compared to a CAGR of 48.8% for lighthouse users during the same years, reflecting our ability to penetrate into a larger user base following initial success with lighthouse users.

We plan to further implement our "go-to-market" strategy by strengthening our relationships with lighthouse users and further penetrate into a larger user base. We also work closely with third-party solution partners and leverage their understanding of end users' demands, thereby developing tailored marketing strategies to acquire more users. As our existing users, in particular our lighthouse users, benefit from our solutions in more and more use cases, we will naturally be able to establish industry standards and attract more new users across sectors. We are able to leverage our experience and success in existing industry and

# SUMMARY

scenario to expand into new industries with similar scenario. For example, successes in intelligent recommendation scenario in the restaurant industry can be leveraged when we are entering into other industries, such as fashion, which also have demands for intelligent recommendation. In addition, we will further optimize and enhance the functions of our solutions so that they can be applied in new scenarios and verticals. Moreover, we plan to recruit and retain talents with in-depth industry knowledge to strengthen our sales and marketing team, thereby leveraging their industry-specific sales experiences to expand users in new industries.

*Continuing to create value for users to further monetize our solutions*

We are dedicated to creating value to our users. As a result, we are able to explore additional monetization opportunities to help us scale up our revenues and to achieve profitability.

We plan to continue to create value for users and address their business needs by optimizing our solutions, innovating our technologies, providing satisfying customer services, among others. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they usually identify incremental business needs for AI within their operations and expand their use of our solutions. Moreover, as our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities after the initial sale. The average revenue per lighthouse user amounted to RMB12.3 million, RMB13.7 million and RMB17.9 million in 2020, 2021 and 2022, respectively, illustrating our ability to further monetize our solutions. In 2020, 2021 and 2022, our revenue generated from existing lighthouse users amounted to RMB445.8 million, RMB808.2 million and RMB1,300.4 million, respectively, representing 77.0%, 78.5% and 70.0% of total revenue generated from lighthouse end users for the same years, respectively. Driven by our successful value creation for lighthouse users, our overall average revenue per user amounted to RMB5.8 million, RMB6.9 million and RMB7.5 million in 2020, 2021 and 2022, respectively.

*Effectively managing our cost and expenses, and enhancing operating leverage*

Our ability to manage and control our costs and operating expenses is critical to the success of our business and our profitability.

Our cost structure is affected by the mix of our solution offerings. For example, with the launch of SageOne, we incurred an increased cost of finished goods sold as a percentage of revenue during the Track Record Period. We expect our cost of revenues as a percentage of revenue may vary from period to period in the short term as a result of the mix of our solution offerings, while it will generally decrease in the long term due to the following factors:

- As we continue to optimize our algorithms and to enhance the compatibility of software and hardware, we expect to improve the computing efficiency of our solutions, which enables us to enhance user experience while optimizing cost structure; and

## SUMMARY

- We have invested heavily in developing technology capabilities and infrastructure, in order to provide highly scalable, standardized and flexible solutions for our users. The solutions we offer are highly modularized, which allows us to address users' customized demands effectively and efficiently, and in turn, enabling us to achieve significant overall cost and operating efficiency.

Our selling and marketing expenses (excluding share-based compensation) accounted for 24.1%, 17.7% and 13.1% of our total revenue in 2020, 2021 and 2022, respectively. We expect that our sales and marketing expenses as a percentage of total revenue will generally decrease in the long term due to the following factors:

- Our go-to-market strategy starts with market leaders in each industry we target to enter who are also early adopters of AI. We are able to leverage our experience and success in existing industry and scenario to expand into new industries with similar scenario. We demonstrate the value of our solutions through one or a few entry projects. Once our value has been proven, we are then able to expand our services quickly to address other business needs of our users. As a result of our go-to-market strategy, after we succeed with the lighthouse users, we leverage our understanding of the industries, our reputation established through collaborating with industry leaders, and our AI ecosystem to further enhance our influence in such industries, enabling us to further penetrate and provide solutions to other players, without incurring significant sales and marketing efforts;

- We expect to accumulate a larger user base and higher user stickiness as we continuously solidify our market leadership. We expect this to enable us to attract and retain users and, in the long-term, reduce spending on promotions and advertisements. As our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities with low marginal cost after the initial sale and improve our profitability;

- We expect to benefit from more efficient user acquisition through word-of-mouth referrals and enhanced brand awareness. With our established brand reputation and large use bases, we expect to continuously generate significant word-of-mouth referrals and organic user growth; and

- We plan to strengthen our relationships with solution partners to retain and expand our user base across various industries, which will help improve our sales and marketing efficiency in the long run.

Our general and administrative expenses (excluding share-based compensation) accounted for 12.7%, 8.6% and 8.1% of our total revenue in 2020, 2021 and 2022, respectively. We expect that our general and administrative expenses as a percentage of total revenue will generally decrease in the long term, as the major expense component, employee benefit expenses, generally do not increase proportionally with our revenue growth.

# SUMMARY

Our research and development expenses (excluding share-based compensation) accounted for 57.3%, 55.3% and 48.8% of our total revenue in 2020, 2021 and 2022, respectively. While we will continue to invest in research and development capabilities to support our long term growth, we expect that our research and development expenses will generally decrease as a percentage of total revenue in the long term, as (i) we expect to have stronger bargaining power against our suppliers for outsourced R&D services as we scale up, and are thus able to obtain more favorable pricing terms, and (ii) the major expense component, employee benefit expenses, generally do not increase proportionally with our revenue growth, and thus we are able to enjoy economies of scale as we scale up. We plan to (i) further strengthen our existing core technologies, and (ii) invest in the research and development team of new areas which may lead to the next generation of AI technologies. For example, we are dedicated to developing technologies in the area of data privacy protection, including privacy preserving learning, which is able to enhance data privacy in the process of machine learning, and federated learning which entails training algorithm on local datasets without exchange data samples, thereby enhancing data security and privacy. For details, see "Business – Research and Development."

Our future profitability is uncertain and subject to various factors, including our ability to develop new technologies, enhance user experience, establish effective monetization strategies, compete effectively and successfully, and continuously grow revenues and our user base in a cost-effective way by improving our operational efficiency. For details, see "Risk Factors – Risks Related to Our Business and Industry – We have recorded net losses, net liabilities and operating cash outflow during the Track Record Period, and we may not be able to achieve or subsequently maintain profitability."

**Working Capital Sufficiency**

In line with our revenue growth, we have experienced increase in our trade receivables, particularly the trade receivables aged over six months, during the Track Record Period. The following table sets forth the ageing analysis of our trade receivables based on invoice date as of the dates indicated.

| | As of December 31, | | |
| --- | --- | --- | --- |
| | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | |
| Up to 3 months | 126,601 | 403,264 | 957,044 |
| 3 to 6 months | 87,412 | 231,336 | 278,486 |
| 6 months to 1 year | 24,432 | 128,141 | 130,321 |
| Over 1 year | 29,564 | 35,741 | 188,569 |
| Less: Credit loss allowance | (5,310) | (20,161) | (61,182) |
| **Trade receivable, Net** | 262,699 | 778,321 | 1,493,238 |

We are exposed to credit risk related to defaults of our customers. For details, see "Risk Factors – Risk Related to Our Business and Industry – We are subject to credit risk related to defaults of customers, and any significant default on our receivables could materially and adversely affect our liquidity, financial sundition and results of operations."

# SUMMARY

We have recorded net cash used in operating activities of RMB452.9 million, RMB770.0 million and RMB779.6 million, in 2020, 2021 and 2022, respectively, primarily due to the net loss recorded and increases in our trade receivables, mainly due to our business growth. For details, see "Financial Information – Liquidity and Capital Resources." For details of our ability to improve our net operating cash flow, see "– Key Financial Ratios – Summary of Consolidated Statements of Cash Flows."

Our principal capital expenditures relate primarily to (i) property and equipment, including leasehold improvements, computer and electric equipment, and office furniture and equipment, and (ii) intangible assets, primarily including software and copyrights and intangible assets recognized as a result of our acquisition of subsidiaries. In 2020, 2021 and 2022, we incurred capital expenditures of RMB51.3 million, RMB416.8 million and RMB113.9 million, respectively.

Sufficient working capital is essential to our ability to successfully execute our growth strategies, and thus to enhance our business sustainability. To ensure working capital sufficiency, we plan to enhance our working capital management efficiency, improve our management of trade receivables and increase the focus on trade receivable collection. We also expect to be able to enjoy economics of scale as we scale up, which will further improve our net operating cash outflow positions. Furthermore, taking into account (i) the financial resources available to us, including a total of RMB3,349 million liquid cash resources as of December 31, 2022 (that include cash and cash equivalents, short-term and long-term bank deposits, short-term investments measured at fair value through profit or loss, restricted cash), (ii) the portion of the estimated net [REDACTED] from the [REDACTED] expected to be used for working capital and general corporate purposes, (iii) our good track record in being able to raise money from renowned investors to finance our business, as evidenced by our historical fund-raising activities, and (iv) our plans to continue to enhance our financial performance, our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

## KEY OPERATING METRICS

The following table sets forth the key operating metrics for the years indicated:

| | For the year ended December 31, | | |
| --- | --- | --- | --- |
| | **2020** | **2021** | **2022** |
| Number of users | 156 | 245 | 409 |
| Number of lighthouse users | 47 | 75 | 104 |
| Average revenue per lighthouse user (RMB million) | 12.3 | 13.7 | 17.9 |

As a result of our effective go-to-market strategy, we had 47, 75 and 104 lighthouse users in 2020, 2021 and 2022, respectively. Our initial success with lighthouse users enable us to further penetrate the respective industry and provide solutions to other players in the industry efficiently. As a result, we have accumulated a strong and rapidly growing total user base including both lighthouse users and other users, with 156, 245, and 409 users in 2020, 2021 and 2022, respectively.

## SUMMARY

We are dedicated to creating value to our users. We plan to continue to create value for users and address their business needs by optimizing our solutions, innovating our technologies, providing satisfying customer services, among others. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they usually identify incremental opportunities within their operations and expand their use of our solutions. Moreover, as our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities after the initial sale. The average revenue per lighthouse user amounted to RMB12.3 million, RMB13.7 million and RMB17.9 million in 2020, 2021 and 2022, respectively.

Driven by our expanding user base and increasing spending from existing users, we have experienced tremendous revenue growth during the Track Record Period. Our revenue grew by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021 and further by 52.7% to RMB3,082.6 million in 2022.

### KEY FINANCIAL RATIOS

We believe that our revenue growth, gross profit margin and contribution margin are important measures of our operation efficiency over time. Revenue growth rate shows the period-over-period growth rate of our total revenue, and gross profit margin equals revenue less cost of sales divided by revenue. Contribution margin is defined as a percentage of contribution bearing to revenue. Contribution is defined as revenue less cost of sales and selling and marketing expenses. The following table sets forth a summary of our key financial ratios for the years indicated.

| | For the year ended December 31, | | |
| | 2020 | 2021 | 2022 |
| --- | --- | --- | --- |
| | % | % | % |
| Revenue growth | 105.0 | 114.2 | 52.7 |
| Gross profit margin | 45.6 | 47.2 | 48.2 |
| Contribution margin | 19.3 | 24.7 | 34.9 |

As a result of our continuous business expansion, our revenue experienced rapid growth, with a growth rate of 105.0%, 114.2% and 52.7% in 2020, 2021 and 2022, respectively. Our overall gross profit margin increased from 45.6% in 2020 to 47.2% in 2021, primarily due to the increase of revenue contribution of application development and other services, which had relatively high gross profit margins, mainly as a result of recovery from the negative impact of COVID-19, and further to 48.2% in 2022, mainly as a result of the increase of revenue contribution of software licensing, which had relatively high gross profit margins, as software licensing requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022. Our contribution margin increased from 19.3% in 2020 to 24.7% in 2021 and 34.9% in 2022. Our contribution margin increased over the Track Record Period primarily because we improved our efficiency in managing cost of sales and selling and marketing expenses.

# SUMMARY

## Summary of Consolidated Statements of Financial Position

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated.

| | As of December 31, | | |
| --- | --- | --- | --- |
| | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | |
| Total non-current assets | 213,667 | 1,352,969 | 1,800,817 |
| Total current assets | 1,802,342 | 5,095,715 | 4,918,167 |
| **Total assets** | 2,016,009 | 6,448,684 | 6,718,984 |
| **Deficit on total equity** | (1,182,999) | (248,013) | (1,461,011) |
| Total non-current liabilities | 2,937,677 | 5,939,764 | 6,628,886 |
| Total current liabilities | 261,331 | 756,933 | 1,551,109 |
| **Total liabilities** | 3,199,008 | 6,696,697 | 8,179,995 |
| **Net current assets** | 1,541,011 | 4,338,782 | 3,367,058 |
| **Total equity and liabilities** | 2,016,009 | 6,448,684 | 6,718,984 |

We had net current assets of RMB1,541.0 million, RMB4,338.8 million, RMB3,367.1 million, respectively, as of December 31, 2020, 2021 and 2022. We had net current liabilities of RMB3,485.7 million as of February 28, 2023.

Our net current assets increased from RMB1,541.0 million as of December 31, 2020 to RMB4,338.8 million as of December 31, 2021, primarily due to an increase in financial assets at fair value through profit or loss from RMB174.4 million as of December 31, 2020 to RMB2,535.8 million as of December 31, 2021 primarily as a result of our investments in wealth management products due to our equity financing activities in 2021.

Our net current assets decreased from RMB4,338.8 million as of December 31, 2021 to RMB3,367.1 million as of December 31, 2022, primarily attributable to a decrease in the current portion of financial assets at fair value through profit or loss from RMB2,535.8 million to RMB1,330.2 million, mainly as a result of our utilization of cash and financial assets in operating expenditures.

Our net current assets of RMB3,367.1 million as of December 31, 2022 changed to net current liabilities of RMB3,485.7 million as of February 28, 2023, primarily due to the increase of redemption liabilities of RMB6,622.3 million, which were reclassified from non-current redemption liabilities to current redemption liabilities, as the redemption rights may be exercised within one year under circumstances such as failure to achieve a [**REDACTED**].

## SUMMARY

Our redemption liabilities were RMB2,147.0 million, RMB5,822.2 million, RMB6,493.2 million and RMB6,622.3 million, respectively, as of December 31, 2020, 2021, 2022 and February 28, 2023. Our redemption liabilities primarily relate to our obligation to repurchase our own equity instruments in connection with the redemption rights and liquidation preferences granted to our investors in certain situations. The significant increase of redemption liabilities as of December 31, 2020 to that as of December 31, 2021 was primarily in connection with our equity financing activities. We expect to turn our net liabilities position into net assets upon [**REDACTED**], as the carrying amount of redemption liabilities will be reclassified from financial liabilities to equity as a result of the termination of the aforesaid preferred rights.

We recorded accumulated loss of RMB2,068.9 million, RMB2,534.5 million and RMB4,177.7 million as of December 31, 2020, 2021 and 2022, primarily as a result of our net loss from the preceding fiscal years.

Our net liabilities decreased from RMB1,183.0 million as of December 31, 2020 to RMB248.0 million as of December 31, 2021, primarily driven by (i) an increase in capital contribution from shareholders of RMB5,055.2 million as a result of our financing activities, and (ii) an increase in the derecognition of redemption liabilities of RMB1,812.3 million because, in May 2021, certain investors agreed to terminate the aforesaid preferred rights we granted to them, partially offset by (i) an increase in the recognition of redemption liabilities of RMB4,848.8 million related to the aforesaid preferred rights and (ii) an increase in the comprehensive loss for the year of RMB1,791.1 million. Our net liabilities increased from RMB248.0 million as of December 31, 2021 to RMB1,461.0 million as of December 31, 2022, primarily driven by an increase in the comprehensive loss for the year of RMB1,656.2 million.

For details, see "Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position."

**Summary of Consolidated Statements of Cash Flows**

|  | Year ended December 31, | | |
| --- | --- | --- | --- |
|  | **2020** | **2021** | **2022** |
|  | *(RMB in thousands)* | | |
| Net cash used in operating activities | (452,940) | (770,008) | (779,589) |
| Net cash (used in)/generated from investing activities | (139,083) | (3,199,611) | 822,387 |
| Net cash generated from/(used in) financing activities | 942,428 | 4,210,015 | (9,014) |
| Net increase in cash and cash equivalents | 350,405 | 240,396 | 33,784 |
| Cash and cash equivalents at the beginning of the year | 703,786 | 1,052,073 | 1,292,686 |
| Effects of exchange rate changes on cash and cash equivalents | (2,118) | 217 | 348 |
| **Cash and cash equivalents at the end of the year** | 1,052,073 | 1,292,686 | 1,326,818 |

We have recorded net cash used in operating activities of RMB452.9 million, RMB770.0 million and RMB779.6 million, in 2020, 2021 and 2022, respectively, primarily due to the net loss recorded and increases in our trade receivables, mainly due to our business growth. For details, see "Financial Information – Liquidity and Capital Resources."

## SUMMARY

**Working Capital**

We usually grant a credit term ranging from 3 to 6 months to our customers, whereas our suppliers, especially the new suppliers, usually grant us shorter credit terms. We believe that this gap will be gradually reduced considering that (i) as we scale up, we expect to have stronger bargaining power against our suppliers and are thus able to obtain more favorable credit terms, and (ii) as we built trust with our customers and gained more bargaining power as our business developed, we are able to negotiate for shorter credit terms with our customers.

Furthermore, taking into account (i) the financial resources available to us, including a total of RMB3,349 million liquid cash resources as of December 31, 2022 (that include cash and cash equivalents, short-term and long-term bank deposits, short-term investments measured at fair value through profit or loss, restricted cash), (ii) the portion of the estimated net [REDACTED] from the [REDACTED] expected to be used for working capital and general corporate purposes, (iii) our good track record in being able to raise money from renowned investors to finance our business, as evidenced by our historical fund-raising activities, and (iv) our plans to continue to enhance our financial performance, for details of which see "– Business Sustainability and Path to Profitability", our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

**[REDACTED]**

# SUMMARY

**OUR SHAREHOLDING STRUCTURE**

**Our Controlling Shareholders**

Immediately prior to the [**REDACTED**], Dr. Dai as our Controlling Shareholder, by himself and through his close associates, Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, controlled approximately 40.44% of our total issued share capital and together, they constitute our Controlling Shareholders (as defined under the Listing Rules) before the [**REDACTED**]. Immediately following completion of the [**REDACTED**] and assuming the [**REDACTED**] is not exercised, Dr. Dai by himself and through his close associates, being Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, will control approximately [**REDACTED**]% of our total issued share capital and they will remain as our Controlling Shareholders upon [**REDACTED**].

**[REDACTED] Investments**

Between August 2015 to June 2021, our Company entered into several rounds of [**REDACTED**] financing agreements with our [**REDACTED**] Investors with the aggregate amount of consideration of approximately US$1.0 billion. For further details of the identity and background of the [**REDACTED**] Investors, see "History, Development and Corporate Structure – [**REDACTED**] Investments" in this Document.

**APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE**

We are applying for the [**REDACTED**] under Rule 8.05(3) of the Listing Rules and satisfy the market capitalization/revenue test, among other things, with reference to (i) our revenue for the year ended December 31, 2022, being RMB3,082.6 million, which is significantly over HK$500 million as required by Rule 8.05(3) of the Listing Rules; and (ii) our expected market capitalization at the time of the [**REDACTED**], which, based on the low end of the [**REDACTED**] range, exceeds HK$[**REDACTED**] as required by Rule 8.05(3) of the Listing Rules.

**DIVIDEND**

No dividends have been paid or declared by us or our subsidiaries during each of the years ended December 31, 2020, 2021 and 2022.

After completion of the [**REDACTED**], our Shareholders will be entitled to receive dividends we declare. As of the Latest Practicable Date, we did not have a formal dividend policy. The Board has approved a dividend policy, which will become effective upon [**REDACTED**]. Under the dividend policy, we may provide our Shareholders with interim or annual dividends as the Board deems appropriate. The Board will consider, among other things, the following factors when proposing dividends and determining the amount of dividends:

- our actual and projected financial performance;

# SUMMARY

- our estimated working capital requirements, capital expenditure requirements and future business expansion plan;

- our present and future cash flow;

- other internal and external factors that may have an impact on our business operations or financial performance and position; and

- other factors that our Board deem relevant.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, including (where required) the approval of our Shareholders.

PRC laws require that dividends be paid only out of our distributable profits. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. We do not expect such difference between distributable profits calculated under PRC GAAP and IFRS, or other differences between PRC GAAP and IFRS to have a material impact on our financial performance. As a result, we may not have sufficient or any distributable profits to make dividend distributions to our Shareholders, even if we become profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years. Our dividend distribution may also be restricted if we incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

**FUTURE PLANS AND USE OF [REDACTED]**

The aggregate net [REDACTED] that we expect to receive from the [REDACTED] (after deducting [REDACTED] fees and estimated expenses in connection with the [REDACTED] and assuming an [REDACTED] of HK$[REDACTED] per Share, being the mid-point of the indicative range of the [REDACTED] of HK$[REDACTED] to HK$[REDACTED] per Share) will be approximately HK$[REDACTED]. We will bear the [REDACTED], SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of new Shares together with any applicable fees relating to the [REDACTED]. We intend to use the net [REDACTED] we will receive from this [REDACTED] for the following purposes:

- Approximately [REDACTED]%, or HK$[REDACTED], will be allocated over the next three years to enhance our fundamental research, technological capabilities and solution development.

- Approximately [REDACTED]%, or HK$[REDACTED], will be allocated over the next three years to expand our [REDACTED], build our brand and enter into new industry sectors.

## SUMMARY

- Approximately [REDACTED]%, or HK$[REDACTED], will be allocated over the next three years to pursue strategic investment and acquisition opportunities to implement our long-term growth strategy to develop our solutions and expand and penetrate the industry verticals we cover.

- Approximately [REDACTED]%, or HK$[REDACTED], will be used for general corporate purposes.

## [REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK$[REDACTED] (being the mid-point of our [REDACTED] range of HK$[REDACTED] to HK$[REDACTED] per [REDACTED]), the total [REDACTED] expenses (including [REDACTED] commissions) payable by our Company are estimated to be approximately HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), accounting for [REDACTED]% of our gross [REDACTED], assuming the [REDACTED] is not exercised. These [REDACTED] expenses mainly include [REDACTED] fees and commissions and professional fees paid to legal, accounting and other advisors, for their services rendered in relation to the [REDACTED] and the [REDACTED], comprising of (i) HK$[REDACTED] of [REDACTED]-related expenses (including but not limited to commissions and fees); and (ii) HK$[REDACTED] of non-[REDACTED]-related expenses, including HK$[REDACTED] of fees and expenses of legal advisors and accountants and HK$[REDACTED] of other fees and expenses.

As of December 31, 2022, we had incurred RMB[REDACTED] of [REDACTED] expenses for the [REDACTED], among which RMB[REDACTED] was charged to our consolidated statement of comprehensive income. We estimate that an additional [REDACTED] expenses of RMB[REDACTED] assuming the [REDACTED] is not exercised will be further incurred by our Group. In aggregate, we expect to incur RMB[REDACTED] for the [REDACTED], among which RMB[REDACTED] is expected to be charged to our consolidated statement of comprehensive income and RMB[REDACTED] is directly attributable to the issue of Shares and expected to be charged against equity upon the [REDACTED].

## RECENT DEVELOPMENT

### Impact of COVID-19

The COVID-19 pandemic and its recurrence have caused temporary disruption to our solutions to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled, which has had a negative impact on our results of operations during the Track Record Period. The recurrence of COVID-19 outbreak in some cities, such as Beijing and Shanghai, further affected our businesses, especially in terms of on-site meetings, deployment and technical support. As of the Latest Practicable Date, we were not aware of any material adverse impacts on our business operations.

# SUMMARY

Despite temporary disruption caused by COVID-19, we have been able to sustain our strong growth momentum, delivering robust revenue growth in 2021 and 2022. Our revenue increased by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, as a result of the increasing demand for our AI solutions and our continuous value creation for end users. Our revenue increased by 52.7% from RMB2,018.4 million in 2021 to RMB3,082.6 million in 2022. Business decision makers are increasingly aware of the value of high quality AI solutions not only in dealing with pressing workforce issues during the pandemic, but also in empowering organizations and optimizing daily operations.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows and financial condition will depend on future developments that are uncertain and cannot be accurately predicted. See "Financial Information – Impact of COVID-19" and "Risk Factors – Risks Related to Our Business and Industry – The COVID-19 pandemic presents challenges to our business and the effects of the pandemic could adversely affect our business, financial condition and results of operations."

**Regulatory Update**

*Cybersecurity and Data Privacy*

On June 10, 2021, the Standing Committee of the National People's Congress of China promulgated the PRC Data Security Law, which has become effective on September 1, 2021. The PRC Data Security Law provides for data security obligations on entities and individuals carrying out data processing activities, introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used, and provides for a national security review procedure for those data processing activities which may affect national security and imposes export restrictions on certain data and information.

On November 14, 2021, the Cyberspace Administration of China (the "CAC") released the Network Data Security Management Regulations (Draft for Comment) (the "Draft Regulations") (《網絡數據安全管理條例(徵求意見稿)》).

Based on the literal interpretation of the Draft Regulations, our PRC Legal Advisers are of the view that, if the Draft Regulations remains in its current form after its promulgation, it may be unlikely that we would be required to undergo a cybersecurity review for the proposed [**REDACTED**].

Up to the Latest Practicable Date, we had not been notified by any authorities of being classified as a data processor carrying out data processing activities that influence or may influence national security, neither had we been subject to any cybersecurity review, enquiry, investigation or notice by the CAC or any other authorities in connection with the proposed [**REDACTED**]. We and our PRC Legal Advisor are of the view that, assuming the Draft

# SUMMARY

Regulations become effective in their current forms, they will not have a material adverse impact on our business, results of operations, or the proposed [**REDACTED**]. There can be no assurance that the relevant authorities will not take a view that is contrary to or otherwise different from that of our PRC Legal Advisor above, and it is also possible that the PRC government authorities may require us to apply for the cybersecurity review for other reasons. In light of the above uncertainties, as of the Latest Practicable Date, we had not applied for such cybersecurity review. We will closely monitor the rule-making process and will assess and determine whether we are required to apply for the cybersecurity review when and once the Draft Regulations is formally promulgated.

For details, see "Regulatory Overview – Regulations Relating to Internet Information Security and Privacy Protection."

**Recent Regulatory Developments Relating to Overseas Listing**

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Overseas Listing Trial Measures**") and relevant supporting guidelines, which came into effect on March 31, 2023. The Overseas Listing Trial Measures comprehensively improve and reform the existing regulatory regime for overseas offering and listing of PRC domestic companies' securities and regulate both direct and indirect overseas offering and listing of PRC domestic companies' securities.

Pursuant to the Overseas Listing Trial Measures, where a PRC domestic company submits an application for initial public offering to competent overseas regulators or overseas stock exchanges, such issuer must file with the CSRC within three business days after such application is submitted.

We are also proactively following up changes in laws and regulatory development and will carry out relevant work to ensure compliance with laws and regulations with the aid of external counsels.

For details, see "Regulatory Overview – Regulations on Overseas Listing."

**No Material Adverse Change**

We expect to record substantial amount of net losses for the year ending December 31, 2023, which is primarily due to our continued investments in research and development of our technologies and solutions, marketing initiatives, share-based compensation as well as estimated interest expense from redemption liabilities. In addition, we expect to record substantial amount of cash used in operations for the year ending December 31, 2023, primarily due to the significant amount of estimated loss before income tax.

Our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since December 31, 2022, the end of the period reported on in the Accountant's Report included in Appendix I to this Document.