You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

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

For the purpose of this section, unless the context otherwise requires, references to 2020, 2021 and 2022 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a leader in enterprise AI. 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, which is a sub-segment of the overall AI market, in China in 2022, according to the 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. OGB is a globally recognized collection of benchmark datasets for machine learning on graphs that AI companies and research institutions utilize to test and evaluate their AI model performance. Participants of the OGB tasks include world-famous innovative enterprises and research institutes, such as Facebook, Alibaba, Stanford University and Cornell University. Our AutoML algorithm also ranks top 1% in Kaggle Structured Data and Image Classification Competition 2019. See "Business – Awards and Recognition." In addition, our founders are pioneers are in transfer learning, according to CIC.

We emphasize value creation. Our solutions have covered 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 2021 and 2022, we had 74 and 104 lighthouse users, respectively. In 2020, 2021 and 2022, the net dollar expansion rates of our lighthouse users were 167%, 140% and 126%, 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. Leveraging our core technologies, we have developed end-to-end enterprise AI solutions 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.

- 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.

BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 4 to the Accountant's Report included in Appendix I to this Document.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

General Factors

Our results of operations are affected by a number of general factors affecting the overall growth and prosperity of the AI industry in China, in particular the decision-making AI market, including:

- China's overall economic growth;
- the ongoing digitalization of China's economy;
- technology development of the AI industry, including, but not limited to, the innovations in analytical instruments, the development of computing infrastructure and the accumulation of high quality data;
- accumulation of AI experts in China; and
- awareness of enterprises to deploy AI applications.

Specific Factors Affecting Our Results of Operations

We believe that our results of operations are primarily and more directly affected by the following specific factors:

Our investment in technology innovation and AI solutions

We have made, and will continue to make, significant investments in technology development and AI solutions to strengthen our market leadership. We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. Our ability to attract qualified and experienced talents are crucial to our R&D efforts. We intend to continue to invest in attracting more talented research and development personnel by offering competitive compensation, in further developing and applying advanced AI and other technologies to enhance the functionality and user experience of our AI solutions, and in strategic investments in and acquisitions of businesses that enhance our technology capabilities and solution offerings. In 2020, 2021 and 2022, we incurred research and development expenses of RMB565.7 million, RMB1,249.5 million and RMB1,650.0 million, respectively, accounting for 60.0%, 61.9% and 53.5% of the revenues for the respective periods. Going forward, we will continue to prudently invest resources in research and development on our platform and infrastructure. Given our systematic development approach and our continuous incorporation of functional improvements, we expect the investment to build our platform and infrastructure in a scalable manner will support the long-term growth of our business.

Our ability to attract and retain our users

Our operating results and growth depend on our ability to attract new users. Guided by our go-to-market strategy, we have served a large number of lighthouse users who are market leaders in the respective domain they operate in and established market presence in an effective manner. As a result of our effective strategies, we had 47, 75, and 104 lighthouse users in 2020, 2021 and 2022, respectively.

After the initial success with lighthouse users, we leverage our understanding, our reputation established through collaborating with industry leaders and our AI ecosystem to further enhance our influence in the industry, enabling 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 user base. In 2020, 2021 and 2022, our number of users was 156, 245 and 409, respectively. We have fostered strong loyalty with our user base by establishing deep collaboration and effectively addressing their needs. We expect to achieve continued growth in the foreseeable future as we continue to attract more users.

Our ability to create value for users with our innovative enterprise AI solutions

We are committed to delivering high quality enterprise AI solutions to create value for our users. Leveraging our advanced technologies, 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 primarily through on-premise deployment and SageOne, our software-defined "All-in-One" solutions with pre-built Sage Platform and applications on servers and other related hardware. Our future growth will depend on our ability to innovate and create value for our new and existing users with our enterprise AI solutions.

Our existing user base represents a significant opportunity for sales expansion. After we help our users 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. In 2021 and 2022, our number of users was 245 and 409, respectively. Our ability to create value for users is evidenced by a net dollar expansion rate of 167%, 140% and 126% for our lighthouse users in 2020, 2021 and 2022, respectively. Our average revenue per lighthouse user increased by 11.4% from RMB12.3 million in 2020 to RMB13.7 million in 2021, and further by 30.7% to RMB17.9 million in 2022.

Our ability to manage our costs and enhance 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 gross profit margin remained stable during the Track Record Period. However, our cost structure is affected by the mix of our solution offerings and might further impact our gross profit margin. 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. In addition, we have invested heavily in developing technology capabilities and infrastructure, in order to provide highly scalable and flexible solutions for our users. The solutions we offer are highly modularized, which allows us to address users' customized demands effectively and efficiently, helping us achieve significant overall cost and operating efficiency. We also incurred an increasing amount of sales and marketing expenses to strategically expand our user base and enter into new verticals, primarily by penetrating lighthouse users. Upon successful penetration of lighthouse users, we expect to obtain further opportunities within the respective industries without incurring significant expenses, thereby enhancing our efficiency in sales and marketing. As a result of our established user base and brand awareness, the efficiency of our sales and marketing personnel has also been increasing.

We are thus well positioned to scale up our revenues while achieving significant cost efficiency and operating leverage. For instance, in 2020, 2021 and 2022, our selling and marketing expenses (excluding share-based compensation) as a percentage of our revenues was 24.1%, 17.7% and 13.1%, respectively, and our general and administrative expenses (excluding share-based compensation) as a percentage of our revenues was 12.7%, 8.6% and 8.1%, respectively. Controlling operating expenses to achieve optimal operating efficiency is important to our success. As our business grows in scale, we expect to have significant operating leverage and realize structural cost savings to compete efficiently.

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
Net dollar expansion rates for lighthouse users	167%	140%	126%

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.

We are dedicated to creating value to our users. 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. Our ability to create value for users is evidenced by a net dollar expansion rate of 167%, 140% and 126% for our lighthouse users in 2020, 2021 and 2022, respectively. Moreover, 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.

IMPACT OF COVID-19

The COVID-19 pandemic and its recurrence have temporarily prevented us from engaging with end users and solution partners through in-person meetings and providing them with deployment and technical support services, especially with the lighthouse users, who are large, established and leading enterprises in various industries and thus tend to implement more stringent COVID-19-related measures than other businesses. The pandemic has 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 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.

Despite temporary disruption caused by COVID-19, we have been able to sustain our strong growth momentum, delivering robust revenue growth in 2021. As the pandemic persists, global demand for automation and AI solutions has continued to accelerate as businesses are increasingly aware of the benefits of going digital. 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. While the pandemic may have been a stimulus for acceleration of automation and AI transformation, we expect the trend of AI transformation to continue post pandemic in the long run. 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. Therefore, the willingness of the whole society and respective vertical industries to improve efficiency through automation and AI solutions are likely to keep strong.

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 "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."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future. Set forth below are accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in further detail in Note 2 and Note 4 to the Accountant's Report included in Appendix I to this Document.

Revenue Recognition

Our revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services supplied, stated net of discounts, returns and value-added taxes. We recognize revenue when the specific criteria have been met for each of our activities, as described below. There has been no significant change in the nature of products/services in relation to each of our revenue streams and the same revenue recognition policy had been applied throughout the Track Record Period.

(a) Sage Platform and applications

Sage Platform and other ready-to-use applications are delivered primarily as (i) licensed software installed at the end users' servers, and (ii) all-in-one solutions with pre-installed software on server or other related hardware.

For the licensed software provided by us, as the customer can direct the use of and obtain substantially all of the remaining benefits from the licensed software after it is transferred, revenue is recognized at a point in time when the licensed software is delivered to the customer's designated place, inspected and accepted by the customer.

For all-in-one solutions with pre-installed software on server or other related hardware, as we provide significant customized service of interrelating and integrating the software and server or other related hardware to maximize their synergistic, the contracts generally have a single performance obligation, and revenue is recognized at a point in time when the software pre-installed server or other related hardware is delivered to the customer's designated place, inspected and accepted by the customer.

To a lesser extent, we also offer cloud-based subscriptions, where Sage Platform and other ready-to-use applications are delivered to end users for usage with a subscription period, and the revenue is recognized over the subscription period. Such revenue recognized over the subscription period was RMB16.6 million, RMB21.5 million and RMB26.5 million in 2020, 2021 and 2022, representing 1.8%, 1.1% and 0.9% of our total revenue for the same periods, respectively. As compared to software license at users servers and SageOne "All-in-One" solutions with pre-built Sage Platform and applications on servers and other related hardware, the cloud-based subscription model requires less investment in infrastructure by the end user. This subscription model merely accounted for a negligible portion of our revenue during the Track Record Period. Going forward, we expect to continue to adopt this model, offering flexible choices to our users with demand for cloud-based Sage Platform and applications.

(b) Application development and other services

Application development and other services consist of customized AI applications development, and other services primarily include AI-empowered precision marketing services which support enterprises to optimize marketing activities.

Application development services primarily take months to complete, the customer cannot benefit from or control the service during the service process and we generally do not have an enforceable right to payment for performance completed to date at all times throughout the duration of the contract, accordingly, revenue is recognized at a point in time when the integrated promised products and services are finally inspected and accepted by the customer.

We act as an agent in AI-empowered precision marketing services considering the fact that we are only responsible for matching resources by using our AI technology, not subject to inventory risk and has no discretion in establishing prices. Therefore, revenue from AI-empowered precision marketing services is measured on a net basis. Such revenue is determined based on actual performance of the marketing. Specifically, such revenue is typically determined (i) on a per-click basis when the relevant marketing content is clicked, (ii) on a per-impression basis when the relevant marketing content is displayed, or (iii) on a per-download basis when the relevant marketing content is downloaded. Accordingly, such revenue is accounted for as variable consideration, which is recognized at a point in time when the performance is highly probable to be reached, indicated by the actual clicks, displays or downloads achieved, as applicable. Our revenue attributable to AI-empowered precision marketing services was RMB30.0 million, RMB31.6 million and RMB3.0 million in 2020, 2021 and 2022, representing 3.2%, 1.6% and 0.1% of our total revenue for the same periods, respectively. Customers of our AI-empowered precision marketing services are typically advertisement agencies in China.

Contract Balance

Timing of revenue recognition may differ from the timing of invoicing to customers. We may perform by transferring goods or services to a customer before the customer pays consideration or before payment is due, and we also may have a right to an amount of consideration before transferring goods or services to a customer. We recognize a contract asset or a contract liability in the consolidated balance sheet, depending on the relationship between our performance and our customer's payment.

Intangible assets

(a) Goodwill

Goodwill arising from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

We carry our annual impairment test on goodwill by comparing the recoverable amounts of CGU or group of CGUs to the carrying amounts. Goodwill arising from the several acquisitions was monitored separately and assessed as separate CGUs for the purpose of impairment testing. We recorded RMB335.8 million of goodwill in total as of December 31, 2022.

CGU of Guangzhou Jianxin

The impairment reviews of the goodwill arising from the acquisition of Guangzhou Jianxin in March 2021 have been conducted by our management as of December 31, 2021 and 2022. For the purposes of the impairment review, the recoverable amount of the CGU of Guangzhou Jianxin is determined based on value in use ("VIU") calculations by using the discounted cash flow method. For goodwill related to acquisition of Guangzhou Jianxin, management forecasted that the compound annual growth rate in the five-year period from the balance sheet date of December 31, 2021 and 2022 was 16.2% and 11.4%, respectively, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates ("terminal growth rate") of 3.0%. Pre-tax discount rate of 20.9% and 20.8% was used to reflect market assessment of time value and the specific risks relating to the CGU for the impairment review as at December 31, 2021 and 2022, respectively. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount of the CGU of Guangzhou Jianxin exceeded its carrying amount by approximately RMB34,180,000 and RMB89,429,000 as of December 31, 2021 and 2022, respectively, and management therefore concluded such goodwill was not impaired. The Directors of the Company have considered and assessed that any reasonably possible changes in key parameters would not cause the carrying amount of the CGU of Guangzhou Jianxin exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review as at December 31, 2021, had there been a reduction of the revenue compound annual growth rate of the first five years by 4.3 percentage point, a reduction of terminal growth rate by 3.9 percentage point, or an increase in pre-tax discount rate by 1.5 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Guangzhou Jianxin would be closed to the breakeven point. For sensitivity analysis conducted during the impairment review as at December 31, 2022, had there been a reduction of the revenue compound annual growth rate of the first five years by 11.3 percentage point, a reduction of terminal growth rate by 15.6 percentage point, or an increase in pre-tax discount rate by 4.3 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Guangzhou Jianxin would be closed to the breakeven point.

CGU of Ideal Technology

The impairment reviews of the goodwill arising from the acquisition of Ideal Technology in June 2021 have been conducted by our management as of December 31, 2021 and 2022. For the purposes of the impairment review, the recoverable amount of the CGU of Ideal Technology is determined based on VIU calculations by using the discounted cash flow method. For goodwill related to acquisition of Ideal Technology, management forecasted that the compound annual growth rate in the five-year period from the balance sheet date of December 31, 2021 and 2022 was 26.0% and 23.4%, respectively, and the cash flows beyond the five-year period were extrapolated using a terminal growth rate of 4.0%. Pre-tax discount rate of 17.6% was used to reflect market assessment of time value and the specific risks relating to the CGU for the impairment reviews as at December 31, 2021 and 2022. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount of the CGU of Ideal Technology exceeded its carrying amount by approximately RMB34,793,000 and RMB39,243,000 as of December 31, 2021 and 2022, respectively, and management therefore concluded such goodwill was not impaired. The Directors of the Company have considered and assessed that any reasonably possible changes in key parameters would not cause the carrying amount of the CGU of Ideal Technology exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review as at December 31, 2021, had there been a reduction of the revenue compound annual growth rate of the first five years by 2.6 percentage point, a reduction of terminal growth rate by 1.4 percentage point, or an increase in pre-tax discount rate by 1.1 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Ideal Technology would be closed to the breakeven point. For sensitivity analysis conducted during the impairment review as at December 31, 2022, had there been a reduction of the revenue compound annual growth rate of the first five years by 2.9 percentage point, a reduction of terminal growth rate by 1.6 percentage point, or an increase in pre-tax discount rate by 1.3 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Ideal Technology would be closed to the breakeven point.

CGU of EpicHust

The impairment review of the goodwill arising from the acquisition of EpicHust in June 2022 has been conducted by the management as at December 31, 2022. For the purposes of the impairment review, the recoverable amount of the CGU of EpicHust is determined based on VIU calculations by using the discounted cash flow method. For goodwill related to acquisition of EpicHust, management forecasted that the revenue compound annual growth rate in the five-year period from the balance sheet date of December 31, 2022 was 13.3%, and the cash flows beyond the five-year period were extrapolated using a terminal growth rate of 3.0%. Pre-tax discount rate of 20.4% was used to reflect market assessment of time value and the specific risks relating to the CGU. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount of the CGU of EpicHust exceeded its carrying amount by approximately RMB3,980,000 as at December 31, 2022 and management therefore concluded such goodwill was not impaired. As the Group just acquired EpicHust in June 2022 and the acquisition consideration was determined on an arm's length basis, the directors of the Company considered that it is remote for any reasonably possible changes in key parameters that would exceed the percentage points as disclosed in the sensitivity analysis below and therefore concluded that any reasonably possible changes in those key parameters would not cause the carrying amount of the CGU of EpicHust exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review, had there been a reduction of the revenue compound annual growth rate of the first five years by 0.7 percentage point, a reduction of terminal growth rate by 0.6 percentage point, or an increase in pre-tax discount rate by 0.4 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of EpicHust would be closed to the breakeven point.

(b) Other intangible assets

Other intangible assets mainly include software and copyright, technology and customer relationship. They are initially recognized and measured at cost or fair value of intangible assets acquired through business combination. We amortize these intangible assets with a limited useful life using the straight-line method over the following periods:

• Software and copyright	3-5 years
• Technology	5 years
• Customer relationship	5-7 years
• Brand name	10 years

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

In particular, the Company determined the estimated useful life of customer relationship with consideration of the historical cooperation period of existing clients, degree of customer loyalty and historical attrition situation of the customers. In relation to the brand name, the Company considered the historical presence of the brand, its market share in relevant industry, and the remaining period of its business license in determining its estimated useful life.

(c) Research and development expenditures

Research expenditures are recognized as an expense as incurred. Development cost is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and

- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

Investments and other financial assets

(a) Classification

We classify our financial assets in the following measurement categories:

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

- those to be measured at amortized cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

We reclassify debt investments when and only when our business model for managing those assets changes.

(b) Measurement

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

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

Debt instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which we classify our debt instruments:

- *Amortized 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 amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- *Fair value through other comprehensive income ("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 recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other 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 gains, net and impairment expenses are presented as a separate line item in the consolidated statement of comprehensive income.

- *Fair value through profit or loss*: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated statement of comprehensive income within other gains, net in the period in which it arises.

Equity instruments

We subsequently measure all equity investments at fair value. Where our management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the consolidated statement of comprehensive income. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) Impairment

We assess on a forward-looking basis for the expected credit losses on financial assets (including trade receivables, other receivables, term bank deposits, restricted cash and cash and cash equivalents), which is subject to impairment under IFRS 9. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

For others, it 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.

(d) Derecognition

Financial assets

We derecognize a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred or we transfer substantially all the risks and rewards of ownership of the financial asset; or (iii) we retain the contractual rights to receive the cash flows of the financial asset, but assume a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass-through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If we neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, we will continue to recognize the asset to the extent of its continuing involvement and recognize an associated liability.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Redemption liabilities

A contract that contains an obligation to purchase our equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount, even if our obligations to purchase is conditional on the counterparty exercising a right to redeem. We undertake such redemption obligations as certain preferred rights are granted to investors in our financing process, the redemption liabilities are recognized as financial liability initially at the present value of the redemption amount and reclassified from equity. Subsequently, the redemption liabilities are measured at amortized cost with interest charged in finance costs.

We derecognize the redemption liabilities when, and only when, our obligations are discharged, cancelled or have expired. When the preferred rights are waived by investors, the carrying amount of the redemption liability is reclassified to equity.

Share-based payments

(a) Equity-settled share-based payment transactions

We operate certain share incentive plans, under which we receive services from our employees as consideration for equity instruments (including share options and awarded shares) of us. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense on the consolidated statement of comprehensive income with a corresponding increase in equity.

In terms of the options and shares awarded to employees, the total amount to be expensed is determined by reference to the fair value of the options and shares granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and

- including the impact of any non-vesting conditions.

Service and non-marketing performance vesting conditions are included in calculation of the number of options and shares that are expected to vest. The total amount expensed is recognized 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, we revise our estimates of the number of options and shares that are expected to vest based on the service and non-marketing vesting performance conditions. We recognize the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

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 recognizing the expense during the period between service commencement period and grant date.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in reserves will continue to be held in reserves.

(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

(c) Modifications

Where the terms of the share-based payment plan are modified, the expense that is not yet recognized for the award is recognized over the remaining vesting period as if the terms had not been modified. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognized for the services received over the remainder of the vesting period. If we modify the terms or conditions of our equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, we shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

Leases

We assesses whether a contract is or contains a lease at inception of a contract. We recognize a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, we recognize the lease payments as an operating expense on a straight-line basis over the term of the lease, and payments for these leases are presented in the consolidated statement of cash flows from operating activities.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, we use our incremental borrowing rate specific to the country, term and currency of the contract. In addition, we consider our recent debt issuances as well as publicly available data for instruments with similar characteristics when calculating the incremental borrowing rates.

Lease payments include fixed payments, less any lease incentives, variable lease payments that depend on an index or a rate known at the commencement date, and purchase options or extension option payments if we are reasonably certain to exercise these options. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset and are recognized as an expense in the consolidated statement of comprehensive income in the period in which the event or condition that triggers those payments occurs.

A lease liability is remeasured upon a change in the lease term, changes in an index or rate used to determine the lease payments or reassessment of exercise of a purchase option. The corresponding adjustment is made to the related right-of-use asset.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated starting at the commencement date over the shorter period of useful life of the underlying asset and lease term.

The lease liability is presented in the 'Lease liabilities' line and the right-of-use assets are presented in the 'Right-of-use assets' line in the consolidated balance sheet. In addition, the principal portion of the lease payments and the interest component are presented within financing activities in the consolidated statement of cash flows.

DESCRIPTION OF KEY STATEMENT OF COMPREHENSIVE INCOME ITEMS

The table below sets forth our consolidated statements of comprehensive income for the years indicated derived from our consolidated statements of comprehensive income set out in the Accountant's Report included in Appendix I to this Document:

	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)
Other comprehensive income/(loss):			
Item that may be reclassified to profit or loss			
Currency translation differences	1,451	1,837	(7,162)
Item that will not be reclassified to profit or loss			
Share of other comprehensive income of investments accounted for using the equity method	–	9,160	4,345

	For the year ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Other comprehensive income/(loss) for the year, net of tax	1,451	10,997	(2,817)
Total comprehensive loss for the year	(748,759)	(1,791,071)	(1,656,238)
Loss attributable to:			
Owners of the Company	(749,650)	(1,785,655)	(1,644,897)
Non-controlling interests	(560)	(16,413)	(8,524)
	(750,210)	(1,802,068)	(1,653,421)
Total comprehensive loss attributable to:			
Owners of the Company	(748,199)	(1,774,658)	(1,647,714)
Non-controlling interests	(560)	(16,413)	(8,524)
	(748,759)	(1,791,071)	(1,656,238)

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 (a non-IFRS measure)

We define adjusted operating loss (a non-IFRS measure) as operating loss by adding back share-based compensation and [**REDACTED**] expenses. The following table reconciles our adjusted operating loss (a non-IFRS measure) presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely operating loss 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)

Adjusted Net Loss (a non-IFRS measure)

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 net loss (a non-IFRS measure) presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely loss for the year 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 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.

Revenue

During the Track Record Period, we primarily derived revenue from providing (i) Sage Platform and applications, and (ii) application development and other services. The table below sets forth a breakdown of our revenue, in absolute amounts and as percentages of total revenue, 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

- ***Sage Platform and applications***. We offer enterprise AI solutions and generate revenue from sales of our Sage Platform and applications. The Sage Platform and applications are delivered primarily through (i) license of software installed on-premise at servers of our end users and (ii) software-defined "All-in-One" solutions, SageOne, with prebuilt Sage Platform and applications, both of which allow our users to develop their own AI applications on Sage Platform. 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 on a recurring basis. 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 charge customers of SageOne by taking into account the number of hardware, required computing power, license fees of our software and service fees for deployment, operation and maintenance.

- ***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. In 2020, 2021 and 2022, the number of our AI application customization project, on a contract number basis, was 213, 357 and 908, respectively. The average revenue per contract was RMB1.4 million, RMB2.2 million and RMB1.7 million in 2020, 2021 and 2022, respectively. Based on the business needs of our users, the contract value of our AI application customization projects varies from project to project, and may range up to over RMB30 million. 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. To a lesser extent, we also offer other services, which primarily include AI-empowered precision marketing services that help enterprises optimize their marketing activities.

See "Business – Our Enterprise AI Solutions" for more information about our enterprise AI solutions.

Cost of Sales

Our cost of sales consists primarily of (i) cost of finished goods sold, which primarily represents procurement cost of hardware components from third-party vendors; (ii) technology service fees; (iii) employee benefit expenses, which primarily represent wages and benefits of our implementation and maintenance personnel for our enterprise AI solutions; and (iv) others. Technology service fees primarily represent technology implementation costs paid to third-party service providers for delivery, deployment and installation of customized AI applications that we develop at users' request. These tasks are not sophisticated but would require large amounts of manpower. Hence, we decided to outsource to third-party services providers to save costs and to allow us focus on our core technology R&D operations. Such costs are incurred at the deployment stage and do not recur after deployment. These service providers are typically IT and technology outsourcing service providers in China. To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of such service providers were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, other than as disclosed above and to the best of our knowledge, none of us, our Directors, Supervisors, senior management, or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) and any of their respective associates had any interest in, or any other past or present relationships (business, employment, family, trust, financing or otherwise) with such service providers or their ultimate beneficial owners, as applicable.

The table below sets forth a breakdown of our cost of sales by nature, in absolute amounts and percentages, for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Technology service fees	149,793	29.2	491,093	46.1	778,981	48.8
Cost of finished goods sold	323,595	63.1	434,021	40.8	613,183	38.4
Employee benefit expenses[(1)]	24,181	4.7	78,644	7.4	154,022	9.7
Others[(2)]	14,934	3.0	61,166	5.7	49,805	3.1
Total	512,503	100.0	1,064,924	100.0	1,595,991	100.0

Notes:

(1) Include share-based compensation to implementation and maintenance personnel in the amount of RMB1.1 million, RMB4.6 million and nil in 2020, 2021 and 2022, respectively, accounting for 0.2%, 0.4% and nil of our cost of sales in the respective year.

(2) Others primarily consist of (i) business travel expenses and (ii) cloud services and other technical service fees. We incur cloud services and other technical service fees in relation to our customized application development services to address our users' specific needs.

With the penetration of AI technologies, users have great demand for customized industry-specific AI applications. In this regard, we have collaborated with third-party service providers for delivery, deployment and installation of customized AI applications that we develop at users' request. During the Track Record Period, the increase in our technology service fees were primarily attributable to the increased technology implementation costs paid to third-party service providers to develop customized industry-specific AI applications, which is in line with the increase in our revenue generated from customized AI application development services which is categorized under the "application development and other services" segment. Such increase was primarily attributable to increased demands for customized industry-specific AI applications from users in verticals we have expanded into, such as wind power, telecommunication and manufacture. Our revenue generated from customized AI application development services was RMB293.3 million, RMB972.2 million and RMB1,587.8 million in 2020, 2021 and 2022.

The table below sets forth a breakdown of our cost of sales, in absolute amounts and percentages, 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	4,986	1.0	19,251	1.8	31,123	2.0
SageOne	333,985	65.1	478,768	45.0	664,359	41.6
Subtotal	338,971	66.1	498,019	46.8	695,482	43.6
Application development and other services	173,532	33.9	566,905	53.2	900,509	56.4
Total	512,503	100.0	1,064,924	100.0	1,595,991	100.0

Gross Profit and Gross Profit Margin

Our gross profit increased by 121.9% from RMB429.7 million in 2020 to RMB953.5 million in 2021, and further by 55.9% to RMB1,486.6 million in 2022, in line with our growth in revenue during the Track Record Period. Our gross profit margins were increasing steadily during the Track Record Period, being 45.6%, 47.2% and 48.2% 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. Our overall gross profit margin further increased to 48.2% in 2022, primarily due to 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.

The table below sets forth a breakdown of our gross profit and gross profit margin for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Sage Platform and applications						
Software licensing	152,902	96.8	336,905	94.6	564,878	94.8
SageOne	127,056	27.6	179,630	27.3	231,491	25.8
Subtotal	279,958	45.2	516,535	50.9	796,369	53.4
Application development and other services	149,777	46.3	436,940	43.5	690,277	43.4
Total	429,735	45.6	953,475	47.2	1,486,646	48.2

Selling and Marketing Expenses

Our selling and marketing expenses are incurred primarily to increase our brand awareness and expand our user base. Our selling and marketing expenses consist primarily of (i) employee benefit expenses, which primarily represents wages and benefits of our selling and marketing staff, (ii) advertising and marketing expenses and (iii) others. The following table sets forth a breakdown of our selling and marketing expenses by nature, in absolute amounts and percentages, for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Advertising and marketing expenses	99,570	40.2	167,060	36.7	198,035	48.0
Employee benefit expenses(1)	131,605	53.1	246,384	54.2	166,380	40.4
Others(2)	16,654	6.7	41,557	9.1	47,737	11.6
Total	247,829	100.0	455,001	100.0	412,152	100.0

Notes:

(1) Include share-based compensation for selling and marketing staff in the amount of RMB20.7 million, RMB98.3 million and RMB8.8 million in 2020, 2021 and 2022, respectively, accounting for 8.4%, 21.6% and 2.1% of our selling and marketing expenses in the respective year.

(2) Others primarily consist of (i) technology service fees, (ii) business travel expenses, (iii) depreciation of property and equipment, (iv) amortization of intangible assets and (v) depreciation of right-of-use assets.

Our selling and marketing expenses accounted for 26.3%, 22.5% and 13.4% of our total revenue in 2020, 2021 and 2022, respectively.

General and Administrative Expenses

Our general and administrative expenses consist primarily of (i) employee benefit expenses, which primarily represent wages and benefits of our administrative and other staff; (ii) professional fees and (iii) others.

The table below sets forth a breakdown of our general and administrative expenses by nature, in absolute amounts and percentages, for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Employee benefit expenses[1]	196,907	79.9	465,013	85.8	417,404	79.1
Professional fees	16,789	6.8	34,177	6.3	61,286	11.6
Others[2]	32,797	13.3	42,540	7.9	48,948	9.3
Total	246,493	100.0	541,730	100.0	527,638	100.0

Notes:

(1) Include share-based compensation for administrative and other staff in the amount of RMB126.5 million, RMB368.3 million and RMB278.6 million in 2020, 2021 and 2022, respectively, accounting for 51.3%, 68.0% and 52.8% of our general and administrative expenses in the respective year.

(2) Others primarily consist of (i) depreciation of property and equipment, (ii) amortization of intangible assets, (iii) technology service fees, (iv) business travel expenses, and (v) depreciation of right-of-use assets.

Our general and administrative expenses accounted for 26.2%, 26.8% and 17.1% of our total revenue in 2020, 2021 and 2022, respectively.

Research and Development Expenses

Our research and development expenses are incurred primarily to develop and enhance our solutions and technology stacks. The main components of our research and development expenses include (i) technology service fees, which primarily represent outsourcing costs for certain non-core and less sophisticated research and development projects, (ii) employee benefit expenses, which primarily represent wages and benefits of our research and development staff and (iii) others. To focus on our core research and development activities, we have outsourced certain non-core and less sophisticated research and development projects to third-party research and development service providers. We are entitled to all copyrights in relation to the R&D projects, including but not limited to the technical materials, documents, source codes and applications. When deciding the types of research and development projects could be outsourced, we primarily consider two criteria, including (i) not core to our Sage Platform, such as the development of applications in our AI application store and miscellaneous product modules and the design of user interfaces, and (ii) not sophisticated but would require large amounts of manpower, such as product testing.

The following table sets forth the breakdown of our research and development expenses by nature, in absolute amount and percentages, for the years indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Technology service fees	289,769	51.2	841,301	67.3	1,218,567	73.9
Employee benefit expenses[(1)]	211,076	37.3	336,487	26.9	369,993	22.4
Others[(2)]	64,829	11.5	71,697	5.8	61,450	3.7
Total	565,674	100.0	1,249,485	100.0	1,650,010	100.0

Notes:

(1) Include share-based compensation for research and development staff in the amount of RMB25.4 million, RMB132.4 million and RMB146.0 million in 2020, 2021 and 2022, respectively, accounting for 4.5%, 10.6% and 8.8% of our research and development expenses in the respective year.

(2) Others primarily consist of (i) depreciation of property and equipment, (ii) amortization of intangible assets, (iii) cloud services and other technical service fees, (iv) business travel expenses, and (v) depreciation of right-of-use assets.

Our research and development expenses accounted for 60.0%, 61.9% and 53.5% of our total revenue in 2020, 2021 and 2022, respectively.

Credit Loss Allowance

Our credit loss allowance mainly includes the credit loss allowance on trade receivables, contract assets and other receivables. In 2020, 2021 and 2022, we had credit loss allowance of RMB2.0 million, RMB15.2 million and RMB48.9 million, respectively.

Other Income

Our other income consists primarily of (i) government grants, which mainly relate to contributions to technology development and investments in local business districts, and (ii) value-added tax and other tax refunds. In 2020, 2021 and 2022, we had other income of RMB42.6 million, RMB41.6 million, and RMB62.7 million, respectively.

Other Gains, Net

Our other gains, net consist primarily of (i) fair value changes on financial assets at fair value through profit or loss, (ii) fair value changes on financial liabilities at fair value through profit or loss, and (iii) net gains on disposal/transfer/dilution of investments accounted for using the equity method. In 2020, 2021 and 2022, we had other gains, net of RMB29.6 million, RMB93.5 million and RMB63.5 million, respectively.

Operating Loss

As a result of the foregoing, in 2020, 2021 and 2022, we had operating loss of RMB560.1 million, RMB1,172.8 million and RMB1,025.9 million, respectively.

Share of (Losses)/Profits of Investments Accounted for Using the Equity Method

In 2020 and 2022, we had share of losses of investments accounted for using the equity method of RMB6.5 million and RMB3.2 million, respectively. In 2021, we had share of profits of investments accounted for using the equity method of RMB3.8 million.

Finance Income

Our finance income consist primarily of interest income from bank deposits. In 2020, 2021 and 2022, we had finance income of RMB6.0 million, RMB24.4 million and RMB46.2 million, respectively.

Finance Costs

Our finance costs consist primarily of (i) interest expense on redemption liabilities and (ii) other finance costs. We incurred interest expense on redemption liabilities primarily due to certain preferred rights historically granted to our investors, which had been amortized with interests charged. See "Discussion of Selected Items from the Consolidated Statements of Financial Position – Liabilities – Redemption Liabilities."

The following table sets forth a breakdown of our finance costs for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Interest expense on redemption liabilities	186,240	98.6	638,682	98.7	670,963	98.4
Other finance costs[1]	2,738	1.4	8,429	1.3	11,212	1.6
Total	188,978	100.0	647,111	100.0	682,175	100.0

Note:

(1) Other finance costs primarily consist of (i) interest expense on lease liabilities, (ii) interest expense on borrowings, and (iii) amortized amounts on payable for acquisition of subsidiaries.

Income Tax (Expenses)/Credit

Our income tax (expenses)/credit consisted primarily of (i) current income tax and (ii) deferred income tax. In 2020, 2021 and 2022, we recorded income tax expenses of RMB0.7 million and RMB10.4 million and income tax credit of RMB11.7 million, respectively. In 2020 and 2021, we incurred income tax expenses even though we had losses before income tax mainly attributable to the temporary tax differences incurred as a result of fair value changes of our equity investments and financial instruments. In 2022, we incurred income tax credit mainly attributable to the temporary tax differences incurred as a result of fair value changes of our financial instruments and the amortization of our intangible assets acquired through business combination.

TAXATION

PRC

We and our subsidiaries in China are generally subject to a general PRC enterprise income tax ("EIT") at the statutory rate of 25%. Fourth Paradigm (Beijing) Data & Technology Co., Ltd., one of our subsidiaries in the PRC, enjoyed a three-year preferential tax treatment for high and new technology enterprises at the reduced EIT rate of 15% during the Track Record Period, and we consider it can be qualified as a high and new technology enterprise for renewal of such preferential tax treatment in the foreseeable future.

The State Taxation Administration of the People's Republic of China announced in September 2018 that enterprises engaging in research and development activities would be entitled to claim 175% of their research and development expenses ("Super Deduction") from January 1, 2018 to December 31, 2020, and announced in March 2021 the extension of this preferential claim percentage to December 31, 2023. As announced in March 2022 and September 2022, technology-based small and medium-sized enterprise would be entitled to claim 200% of their research and development expenses from January 1, 2022 and other enterprises would entitle to claim 200% of their research and development expenses from October 1, 2022 to December 31, 2022. We have made our best estimate for the Super Deduction to be claimed for our entities in ascertaining our assessable profits during the Track Record Period.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax of which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

Singapore

Entities incorporated in Singapore are subject to Singapore income tax at a rate of 17% for taxable income earned in Singapore. No provision for Singapore income tax was made as we had no estimated assessable profit that were subject to Singapore income tax during the Track Record Period.

DISCUSSION OF RESULTS OF OPERATIONS

Year Ended December 31, 2022 Compared with the Year Ended December 31, 2021

Revenue

Our revenue increased by 52.7% from RMB2,018.4 million in 2021 to RMB3,082.6 million in 2022, which was attributable to (i) an increase by 47.0% in the revenue generated from our Sage Platform and applications from RMB1,014.6 million in 2021 to RMB1,491.9 million in 2022, and (ii) an increase by 58.5% in the revenue generated by our application development and other services from RMB1,003.8 million in 2021 to RMB1,590.8 million in 2022. Our revenue increases were primarily driven by the expansion in our number of users from 245 in 2021 to 409 in 2022, as well as increased user spending evidenced by the increase of our average revenue per lighthouse user from 13.7 million in 2021 to 17.9 million.

- ***Sage Platform and applications***. Revenue from sales of our Sage Platform and applications increased by 47.0% from RMB1,014.6 million in 2021 to RMB1,491.9 million in 2022 as a result of our business expansion efforts. More specifically, revenue from software licensing increased by 67.3% from RMB356.2 million in 2021 to RMB596.0 million in 2022, primarily driven by the growth of our user base and user spending on our software licensing. Revenue from SageOne increased by 36.1% from RMB658.4 million in 2021 to RMB895.9 million in 2022, primarily due to an expansion of our user base for SageOne as it becomes increasingly well received by users.

- ***Application development and other services***. Revenue from application development and other services increased by 58.5% from RMB1,003.8 million in 2021 to RMB1,590.8 million in 2022. We believe that these increases were mainly due to the growth of our user base.

Cost of Sales

Our cost of sales increased by 49.9% from RMB1,064.9 million in 2021 to RMB1,596.0 million in 2022. The increase in cost of sales was primarily due to the increase in technology service fees by 58.6% from RMB491.1 million in 2021 to RMB779.0 million in 2022, which was due to our increased use of third-party deployment service providers in line with the increase of our revenue generated from customized AI application development services.

For Sage Platform and applications, our cost of sales for software licensing increased significantly from RMB19.3 million in 2021 to RMB31.1 million in 2022 in line with the revenue growth, and our cost of sales for SageOne increased by 38.8% from RMB478.8 million in 2021 to RMB664.4 million in 2022. For application development and other services, our cost of sales for AI applications customization increased by 58.8% from RMB566.9 million in 2021 to RMB900.5 million in 2022, in line with the increase of our revenue generated from customized AI application development services.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 55.9% from RMB953.5 million in 2021 to RMB1,486.6 million in 2022, in line with our growth in revenue during the same periods. Our gross profit margin increased from 47.2% in 2021 to 48.2% in 2022, primarily due to 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 gross profit margin for software licensing kept stable in 2021 and 2022, being 94.6% and 94.8%, respectively. Our gross profit margin for SageOne decreased slightly from 27.3% in 2021 to 25.8% in 2022. For application development and other services, our gross profit margin kept stable in 2021 and 2022, being 43.5% and 43.4%, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 9.4% from RMB455.0 million in 2021 to RMB412.2 million in 2022. The decrease was attributable to a decrease in employee benefit expenses by 32.5% from RMB246.4 million in 2021 to RMB166.4 million in 2022, mainly attributable to the decrease in employee benefit expenses of RMB80.0 million, in relation to the decreased share-based compensation in 2022.

General and Administrative Expenses

Our general and administrative expenses slightly decreased by 2.6% from RMB541.7 million in 2021 to RMB527.6 million in 2022, which was mainly attributable to the decrease in employee benefit expenses of RMB47.6 million, in relation to the decreased share-based compensation in 2022.

Research and Development Expenses

Our research and development expenses increased by 32.1% from RMB1,249.5 million in 2021 to RMB1,650.0 million in 2022. The increase was primarily attributable to the increase of technology service fees by 44.8% from RMB841.3 million to RMB1,218.6 million, illustrating our continuous investments in research and development activities.

Credit Loss Allowance

Our credit loss allowance increased by 221.7% from RMB15.2 million in 2021 to RMB48.9 million in 2022. The increase was mainly attributable to our significantly increased trade receivables due to our revenue increases.

Other Income

Our other income increased by 50.5% from RMB41.6 million in 2021 to RMB62.7 million in 2022, primarily due to the increase in value-added tax and other tax refunds from RMB36.5 million to RMB52.4 million, primarily as a result of our revenue growth.

Other Gains, Net

Our other gains, net decreased by 32.1% from RMB93.5 million in 2021 to RMB63.5 million in 2022, primarily due to a decrease in fair value changes on financial assets at fair value through profit or loss from RMB85.6 million in 2021 to RMB53.5 million in 2022 in relation to the wealth management products we held.

Operating Loss

As a result of the foregoing, our operating loss decreased by 12.5% from RMB1,172.8 million in 2021 to RMB1,025.9 million in 2022. Overall, the decrease of our operating loss was due to the improvement of our operational efficiency.

Share of (Losses)/Profits of Investments Accounted for Using the Equity Method

We recorded RMB3.8 million in share of profits of investments accounted for using the equity method and RMB3.2 million in share of losses of investments accounted for using the equity method in 2021 and 2022, respectively.

Finance Income

Our finance income increased by 89.2% from RMB24.4 million in 2021 to RMB46.2 million in 2022, primarily due to the increase of our interest income from bank deposits.

Finance Costs

Our finance costs kept stable, being RMB647.1 million in 2021 and RMB682.2 million in 2022.

Income Tax (Expenses)/Credit

We incurred income tax expenses of RMB10.4 million in 2021 and income tax credit of RMB11.7 million in 2022. The change in the tax expenses was primarily due to impacts of deferred taxes in connection with fair value changes of our financial instruments and the amortization of our intangible assets acquired through business combination.

Year Ended December 31, 2021 Compared with the Year Ended December 31, 2020

Revenue

Our revenue increased by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, which was attributable to (i) an increase by 210.5% in the revenue generated by our application development and other services from RMB323.3 million in 2020 to RMB1,003.8 million in 2021 and (ii) an increase by 63.9% in the revenue generated from our Sage Platform and applications from RMB618.9 million to RMB1,014.6 million, over the same years. Our revenue increases were primarily driven by the expansion in our number of users from 156 in 2020 to 245 in 2021 and the increased spending of our users, especially the spending of our lighthouse users, evidenced by the increase of our average revenue per lighthouse user from RMB12.3 million in 2020 to RMB13.7 million in 2021.

- ***Sage Platform and applications***. Revenue from sales of our Sage Platform and applications increased by 63.9% from RMB618.9 million in 2020 to RMB1,014.6 million in 2021 as a result of our business expansion efforts. More specifically, revenue from software licensing increased significantly from RMB157.9 million in 2020 to RMB356.2 million in 2021, primarily driven by the expansion in our number of users and the increased spending of our users. Revenue from SageOne increased by 42.8% from RMB461.0 million in 2020 to RMB658.4 million in 2021, primarily due to an expansion of our user base for SageOne as it becomes increasingly well received by users.

- ***Application development and other services***. Revenue from application development and other services increased by 210.5% from RMB323.3 million in 2020 to RMB1,003.8 million in 2021. We believe that these increases were mainly due to the increase of our use cases and users that need customized AI applications on Sage Platform. Additionally, our revenue generated from services were negatively affected by the COVID-19 pandemic in 2020, as lockdown and travel restrictions in response to the pandemic temporarily prevented us from engaging with end users and partners through in-person meetings and providing them with application development and other services.

Cost of Sales

Our cost of sales increased by 107.8% from RMB512.5 million in 2020 to RMB1,064.9 million in 2021. The increase in cost of sales was primarily due to (i) the increase in technology service fees by 227.8% from RMB149.8 million in 2020 to RMB491.1 million in 2021, which was due to our increased use of third-party deployment service providers primarily driven by the increase in our revenue generated from customized AI application development services, and (ii) the increase in cost of finished goods sold by 34.1% from RMB323.6 million in 2020 to RMB434.0 million in 2021, which was in line with our increased sales of SageOne.

For Sage Platform and applications, our cost of sales for software licensing increased by 286.1% from RMB5.0 million in 2020 to RMB19.3 million in 2021, and our cost of sales for SageOne increased by 43.4% from RMB334.0 million in 2020 to RMB478.8 million in 2021. For application development and other services, our cost of sales for AI applications customization increased by 226.7% from RMB173.5 million in 2020 to RMB566.9 million in 2021. These increases were due to our revenue growth in the respective business segments.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 121.9% from RMB429.7 million in 2020 to RMB953.5 million in 2021, in line with our growth in revenue during the same periods. Our 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. For Sage Platform and applications, our gross profit margin increased from 45.2% in 2020 to 50.9% in 2021, primarily due to the increase of revenue contribution of software licensing, which had higher gross profit margins than SageOne. Our gross profit margin for software licensing decreased slightly from 96.8% in 2020 to 94.6% in 2021. Our gross profit margin for SageOne remained stable, being 27.6% and 27.3%, in 2020 and 2021, respectively. For application development and other services, our gross profit margin slightly decreased from 46.3% in 2020 to 43.5% in 2021, primarily because we incurred additional costs to cope with the increased customization demands from new industries we entered.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 83.6% from RMB247.8 million in 2020 to RMB455.0 million in 2021, which was primarily driven by our efforts to enhance our brand awareness and our continued investments in engaging with existing customers and attracting new customers. More specifically, the increase was primarily attributable to (i) an increase in employee benefit expenses by 87.2% from RMB131.6 million in 2020 to RMB246.4 million in 2021, mainly as a result of the increased compensation level, especially the share-based compensation of our selling and marketing staff, and (ii) an increase in advertising and marketing expenses by 67.8% from RMB99.6 million in 2020 to RMB167.1 million in 2021, including increased advertisement placements, driven by our enhanced sales efforts to penetrate new verticals.

General and Administrative Expenses

Our general and administrative expenses increased by 119.8% from RMB246.5 million in 2020 to RMB541.7 million in 2021. More specifically, the increase was primarily attributable to a significant increase in employee benefit expenses from RMB196.9 million in 2020 to RMB465.0 million in 2021, mainly as a result of the share-based compensation of our general and administrative staff recognized in 2021.

Research and Development Expenses

Our research and development expenses increased by 120.9% from RMB565.7 million in 2020 to RMB1,249.5 million in 2021, as we continued to increase our research and development efforts to enhance our fundamental capabilities in technology and to meet the needs of our business growth. More specifically, the increase was primarily attributable to (i) a significant increase in technology service fees from RMB289.8 million in 2020 to RMB841.3 million in 2021 as a result of our increased use of third party technology services for development of certain applications in our AI application store, design of user interfaces and product testing projects, driven by our enhanced research and development efforts and the expansion of our business, and (ii) a significant increase in employee benefit expenses from RMB211.1 million in 2020 to RMB336.5 million in 2021, which was mainly due to the increased headcounts and increased compensation level, especially the share-based compensation, of our research and development staff. The increase of our research and development expenses in 2021 was primarily driven by our investment in R&D activities to maintain our industry leadership and accommodate users' demand in light of the penetration of AI technologies. We incurred expenses to commercialize products and solutions using our core technologies: For example, we launched our enterprise-level AI app store in June 2021, which contains a cluster of applications on our AI operating system using our algorithms and standards. To accommodate users' increasing demand for AI solutions, we will continue to incur expenses in the design, testing and development of modules of our Sage Platform and applications. We also continued to enhance our fundamental research and to explore new areas which may lead to the next generation of AI technologies. See "Business – Research and Development."

Credit Loss Allowance

Our credit loss allowance increased significantly by 663.4% from RMB2.0 million in 2020 to RMB15.2 million in 2021. The increase was mainly attributable to our significantly increased trade receivables due to our revenue increases.

Other Income

Our other income remained stable in 2020 and 2021, being RMB42.6 million and RMB41.6 million, respectively.

Other Gains, Net

Our other gains, net increased by 215.9% from RMB29.6 million in 2020 to RMB93.5 million in 2021. The increase was mainly attributable to an increase in our fair value changes on financial assets at fair value through profit or loss through wealth management products from RMB12.5 million in 2020 to RMB85.6 million in 2021, primarily due to our increased purchase of wealth management products using the Series D financing [**REDACTED**] we received in 2021 and the increased fair value of such products.

Operating Loss

As a result of the foregoing, our operating loss increased by 109.4% from RMB560.1 million in 2020 to RMB1,172.8 million in 2021. Overall, the increase of our operating loss was due to the increase in share-based compensation in 2021 and our continuous investment in research and development.

Share of (Losses)/Profits of Investments Accounted for Using the Equity Method

We recorded RMB6.5 million in share of losses for investments accounted for using the equity method in 2020 and RMB3.8 million in share of profits for investments accounted for using the equity method in 2021.

Finance Income

Our finance income increased by 304.4% from RMB6.0 million in 2020 to RMB24.4 million in 2021, primarily due to the increase of our interest income from bank deposits.

Finance Costs

Our finance costs increased by 242.4% from RMB189.0 million in 2020 to RMB647.1 million in 2021, primarily due to a significant increase of interest expense on redemption liabilities by 242.9% from RMB186.2 million in 2020 to RMB638.7 million in 2021, which was primarily in connection with our equity financing activities.

Income Tax Expenses

We incurred income tax expenses of RMB0.7 million in 2020 and RMB10.4 million in 2021. The increase of the tax expenses was primarily as a result of temporary tax differences incurred due to fair value changes of our equity investments and financial instruments.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which has been extracted from the Accountant's Report included in Appendix I to this Document:

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
ASSETS			
Non-current asset			
Right-of-use assets	37,814	34,074	70,002
Property and equipment	47,658	49,807	48,421
Intangible assets	19,916	395,389	457,306
Investments accounted for using the equity method	86,638	115,173	45,865
Financial assets at fair value through profit or loss	20,936	246,128	477,889
Contract assets	705	1,195	16,295
Long-term bank deposits	–	510,203	685,039
Other non-current assets	–	1,000	–
Total non-current assets	213,667	1,352,969	1,800,817
Current assets			
Inventories	28,186	184,499	349,872
Contract assets	1,193	4,434	31,093
Trade receivables	262,699	778,321	1,493,238
Prepayments and other receivables	169,980	272,002	380,064
Financial assets at fair value through profit or loss	174,408	2,535,763	1,330,166
Short-term bank deposits	95,602	20,000	–
Restricted cash	18,201	8,010	6,916
Cash and cash equivalents	1,052,073	1,292,686	1,326,818
Total current assets	1,802,342	5,095,715	4,918,167
Total assets	2,016,009	6,448,684	6,718,984

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital/paid-in capital	8,851	437,706	437,706
Treasury stock	(1,746,224)	(4,898,094)	(4,898,094)
Reserves	2,628,252	6,643,834	7,063,334
Accumulated losses	(2,068,902)	(2,534,467)	(4,177,658)
Non-controlling interests	(4,976)	103,008	113,701
Deficit on total equity	(1,182,999)	(248,013)	(1,461,011)
Non-current liabilities			
Lease liabilities	17,590	11,000	43,721
Deferred income tax liabilities	995	25,027	14,324
Borrowings	–	15,000	24,000
Redemption liabilities	2,147,031	5,822,196	6,493,159
Other non-current liabilities	772,061	66,541	53,682
Total non-current liabilities	2,937,677	5,939,764	6,628,886
Current liabilities			
Trade payables	84,968	321,357	863,234
Other payables and accruals	73,366	183,863	226,161
Contract liabilities	77,099	173,881	325,731
Lease liabilities	21,185	24,364	28,311
Income tax liabilities	–	4,926	1,844
Borrowings	–	3,752	48,554
Other current liabilities	4,713	44,790	57,274
Total current liabilities	261,331	756,933	1,551,109
Total liabilities	3,199,008	6,696,697	8,179,995
Total equity and liabilities	2,016,009	6,448,684	6,718,984

Net Current Assets and Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated:

	As of December 31,			As of February 28,
	2020	2021	2022	2023
		(RMB in thousands)		
				(unaudited)
Current assets				
Inventories	28,186	184,499	349,872	414,323
Contract assets	1,193	4,434	31,093	26,757
Trade receivables	262,699	778,321	1,493,238	1,413,789
Prepayments and other receivables	169,980	272,002	380,064	421,513
Financial assets at fair value through profit or loss	174,408	2,535,763	1,330,166	461,577
Short-term bank deposits	95,602	20,000	–	–
Restricted cash	18,201	8,010	6,916	7,878
Cash and cash equivalents	1,052,073	1,292,686	1,326,818	1,726,635
Total current assets	1,802,342	5,095,715	4,918,167	4,472,472
Current liabilities				
Trade payables	84,968	321,357	863,234	641,084
Other payables and accruals	73,366	183,863	226,161	165,803
Contract liabilities	77,099	173,881	325,731	384,235
Lease liabilities	21,185	24,364	28,311	27,158
Income tax liabilities	–	4,926	1,844	1,336
Borrowings	–	3,752	48,554	62,631
Redemption liabilities	–	–	–	6,622,285
Other current liabilities	4,713	44,790	57,274	53,596
Total current liabilities	261,331	756,933	1,551,109	7,958,128
Net current assets/(liabilities)	1,541,011	4,338,782	3,367,058	(3,485,656)

We had net current assets of RMB1,541.0 million, RMB4,338.8 million and RMB3,367.1 million and net current liabilities of RMB3,485.7 million, respectively, as of December 31, 2020, 2021, 2022 and 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 (i) 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 and (ii) an increase in trade receivables from RMB262.7 million to RMB778.3 million in line with our revenue growth.

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, and partially offset by an increase in trade receivables from RMB778.3 million to RMB1,493.2 million in line with our revenue growth.

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 in 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**].

Assets

Right-of-Use Assets

Our right-of-use assets were RMB37.8 million, RMB34.1 million and RMB70.0 million, respectively, as of December 31, 2020, 2021 and 2022. Our right-of-use assets relate primarily to our leases of our office premises.

Property and Equipment

Our property and equipment consist primarily of computer equipment, furniture, office equipment and leasehold improvements, which relate mainly to our leased office premises. Our property and equipment increased from RMB47.7 million as of December 31, 2020 to RMB49.8 million as of December 31, 2021, which was primarily due to expansion and leasehold improvements of office spaces and acquisition of server and electric equipment to meet the needs of the increased number of our employees and our business growth during these periods. Our property and equipment decreased slightly from RMB49.8 million as of December 31, 2021 to RMB48.4 million as of December 31, 2022.

Intangible Assets

Our intangible assets primarily consist of software applications that we purchased for administrative and research and development purposes, as well as technology, customer relationship, brand name and goodwill acquired in business acquisitions. We had intangible assets of RMB19.9 million, RMB395.4 million and RMB457.3 million, respectively, as of December 31, 2020, 2021 and 2022. From December 31, 2020 to December 31, 2021, our intangible assets increased significantly, mainly as a result of our acquisitions of Ideal Technology and Guangzhou Jianxin. See "History, Development and Corporate Structure – Major Acquisitions and Investments." More specifically, we recorded RMB259.7 million of goodwill, RMB37.1 million of technology, RMB71.7 million of customer relationship and RMB6.4 million of brand name as at December 31, 2021, as a result of these business acquisitions. Guangzhou Jianxin and its subsidiaries are primarily engaged in provision of intelligent platform and solutions in energy and power industry. Ideal technology is mainly engaged in provision of digital operation and maintenance platform and solutions. Goodwill is attributable to the acquired market share and economies of scale expected to be derived from combining with the operations of the Group following these acquisitions. From December 31, 2021 to December 31, 2022, our intangible assets increased, mainly as a result of our acquisition of EpicHust. See Note 33(c) to the Accountant's Report in Appendix I to this Document.

Investments Accounted for Using the Equity Method

Investments accounted for using the equity method are related to our investments in certain associated companies, which amounted to RMB86.6 million, RMB115.2 million and RMB45.9 million, respectively, as of December 31, 2020, 2021 and 2022. The change in our interest in associates throughout the Track Record Period relates primarily to the operational and financial performance of our associates, as well as additions, disposals and transfers of our associates. See Note 17 to the Accountant's Report in Appendix I to this Document.

The following table sets forth the breakdown of our investments accounted for using the equity method.

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Investments accounted for using the equity method			
– Associates	69,898	101,092	45,865
– Joint ventures	16,740	14,081	–
	86,638	115,173	45,865

None of associates or joint ventures are individually material to the Group during the Track Record Period.

Financial Assets at Fair Value through Profit or Loss

During the Track Record Period, our financial assets at fair value through profit or loss primarily consist of wealth management products, unlisted equity securities, preferred shares investments and fund investments. The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Non-current			
Unlisted equity securities	9,804	19,065	77,173
Preferred shares investments	–	17,000	23,992
Fund investments	11,132	210,063	376,724
Current			
Wealth management products	174,408	2,535,763	1,330,166

Our unlisted equity securities include our long-term investments in unlisted companies, where our equity ownership is not material, we do not participate in such companies' day-to-day operations. Our unlisted equity securities increased from RMB9.8 million as of December 31, 2020 to RMB19.1 million as of December 31, 2021, and further to RMB77.2 million as of December 31, 2022, reflecting our increasing investments in businesses that are complementary to ours. Our preferred shares investments include investments in ordinary shares with preferential rights. Our fund investments include our investment in funds that focus on equity investment in unlisted companies, and we are limited partners of these funds. Our fund investments increased from RMB210.1 million as of December 31, 2021 to RMB376.7 million as of December 31, 2022. For details, see Note 19(iii) to the Accountant's Report in Appendix I to this Document. We have been in the past, and expect to continue, prudently evaluating and considering a wide array of potential investments in emerging businesses that are complementary to our business to implement our long-term growth strategy, develop our solutions and expand and penetrate the industry verticals we cover. We select our investment target companies based on the industry in which the target operates, the target's strength of technology and solutions, the target's business and financial performance and the synergy between the target and us. During the Track Record Period, we made minority equity investments in certain private companies, which are measured as financial assets at fair value through profit or loss. We undertake prudent evaluation and approval process in making investment decisions. Our investment managers conduct preliminary due diligence and evaluation on potential investment opportunities presented, and submit the targets that meet our selection criteria for pre-approval by our chief financial officer. Upon our chief financial officer's pre-approval, we organize a project working group and engage third-party professionals to conduct comprehensive due diligence, negotiate with the target company and evaluate risks associated with the investment. Investment agreements will be subject to review and approval by our investment managers and an ad hoc investment committee before execution. The payment process is also subject to the approval matrix of our finance management system. After making an investment, we typically conduct on-site visits at our investee companies on a semi-annual basis and report their operational and financial results to our chief finance officer regularly, continuing to monitor their business performance.

During the Track Record Period, we predominantly purchased relatively low-risk wealth-management products which were deposited in or managed by state-owned banks or other high-quality reputable banks in China. Our wealth management products are primarily denominated in RMB and have expected rates of return ranging from 1.63% to 6.25%, 2.20% to 4.74%, and 1.60% to 4.43% per annum for the years ended December 31, 2020, 2021 and 2022, respectively. Our wealth management products increased from RMB174.4 million as of December 31, 2020 to RMB2,535.8 million as of December 31, 2021, primarily due to our increased purchase of wealth management products and the increased fair value of our purchased wealth management products. Our wealth management products decreased from RMB2,535.8 million as of December 31, 2021 to RMB1,330.2 million as of December 31, 2022, primarily because we decreased our purchase of wealth management products to increase our cash reserves in anticipation of the cash needs for the high level of operating activities. The principal and returns on all these wealth management products are not guaranteed. As of December 31, 2020, 2021 and 2022, risk profile of all of the wealth management products we purchased are relatively low. Our treasury management department is responsible for managing our investments in wealth management products. More specifically, our treasury manager solicits quotes of wealth management products from banks and formulates an investment plan for cash allocation based on our treasury management policy. The treasury manager then executes such plan upon approval by the responsible persons of our treasury management department and finance department, and our chief financial officer. Our investment strategy related to wealth management products aims to minimize the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, and to generate investment returns for the benefit of our shareholders. We primarily invest in wealth management products with relatively low risks and the proposed investment must not interfere with our daily operation and business prospects. We make investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macroeconomic environment, general market conditions and the expected profit or potential loss of the investment. As of December 31, 2022, our top five investments were: (i) RMB500.0 million 207-day wealth management product issued by a reputable state-owned bank; (ii) RMB200.0 million open-end wealth management product issued by a reputable bank, with no maturity date; (iii) RMB170.0 million open-end wealth management product issued by a reputable state-owned bank; (iv) RMB170.0 million open-end wealth management product issued by a reputable state-owned bank, with no maturity date; and (v) RMB170.0 million open-end wealth management product issued by a reputable bank. After the [**REDACTED**], our investments in wealth management products will be subject to compliance with Chapter 14 of the Listing Rules.

In addition, any investment exceeding RMB8.0 million, through a single transaction or a series of transactions within one year, and any investment exceeding RMB30.0 million in the aggregate, in equity securities of other companies, securities that are convertible into equity of other companies or any operating assets, must be approved by our chief financial officer and the Board.

In relation to the valuation of the financial assets and liabilities at fair value through profit or loss categorized within level 3 of fair value measurement, our Directors (i) carried out independent and sufficient investigation to understand the nature of the financial instruments in considering the merits of the proposed investment; (ii) reviewed the terms of investment agreements; (iii) engaged independent and qualified valuers, which are qualified for providing valuation services under application laws and regulations in PRC, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions to determine the fair value of our investment in the level 3 financial instruments; and (iv) reviewed the key assumptions with respect to the valuation exercise, the valuation working papers and results prepared by the valuer. Based on the aforesaid procedures, the Directors are of the view that the valuation analysis is fair and reasonable, and our financial statements are properly prepared. In addition, we have 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 our level 3 financial instruments.

The Reporting Accountant has carried out necessary audit procedures in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on pages I-1 to I-2 of Appendix I to this document.

In relation to the valuation of financial assets and liabilities at fair value through profit or loss categorized within level 3 of fair value measurement, the Sole Sponsor have conducted relevant due diligence work including but not limited to; (i) reviewing relevant notes in the Accountant's Report as contained in Appendix I and associated valuation reports provided by the Group; and (ii) interviewing the management of the Company, the Reporting Accountant about, among others, the process, method, key bases and assumptions for the valuation. Having considered the work performed by the Directors, the Reporting Accountant and the results of the relevant due diligence performed as stated above, nothing has come to the Sole Sponsor's attention that would cast doubt on the valuation of the Group's financial liabilities measured at FVTPL within level 3 of fair value measurement.

Inventories

Our inventories primarily consist of (i) finished goods, which primarily consist of the servers and other related hardware products of our "All-in-One" solutions, and (ii) contract fulfillment costs in relation to our deployment services. Contract fulfillment costs represent the costs incurred to fulfill the obligations under the deployment service contracts when and after the contracts are entered into, but before the service thereunder is delivered to users. Such costs primarily consist of employee benefit expenses and technology service fees that are necessary to perform the contracts, which will be recognized to cost of sales mainly within 3-6 months when our related performance obligations are satisfied and upon which the related service contract revenue is recognized. The following table sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Finished goods	3,187	20,633	99,397
Contract fulfillment costs	24,999	165,786	252,269
	28,186	186,419	351,666
Less: provision for impairment	–	(1,920)	(1,794)
Total	28,186	184,499	349,872

The significant increase in our inventories from RMB28.2 million as of December 31, 2020 to RMB184.5 million as of December 31, 2021 was primarily due to the increase of contract fulfillment costs, mainly because some of our solution projects' schedules were extended as affected by the COVID-19 pandemic. The increase in our inventories from RMB184.5 million as of December 31, 2021 to RMB349.9 million as of December 31, 2022 was primarily due to the increase of contract fulfillment costs, driven by our increased contract amounts in line with our business growth. As of February 28, 2023, RMB19.0 million, accounting for approximately 5.4% of the RMB349.9 million inventories as of December 31, 2022, had been subsequently settled. We had not experienced any material recoverability issues for our inventories and do not anticipate to have any material recoverability issues for our inventories. We do not anticipate to have any material recoverability issues for our contract fulfillment costs because (i) our management is of the view that the risk of failure to satisfy our related performance obligations is remote considering that our business operation and financial conditions are healthy; (ii) our management is of the view that the risk of material loss under our deployment service contracts is remote considering our high profile client base and, to the best knowledge of our management, their healthy financial conditions in general; and (iii) we had not experienced any material recoverability issues for our contract fulfillment costs throughout the Track Record Period.

Contract assets

Our contract assets represent our rights to receive consideration for obligations performed under some of our sales contracts. These considerations are not yet payable by the customers as they are subject to certain conditions under the relevant contracts, such as lapse of the warranty period. Our non-current contract assets were RMB0.7 million, RMB1.2 million and RMB16.3 million as of December 31, 2020, 2021 and 2022, respectively, and our current contract assets were RMB1.2 million, RMB4.4 million and RMB31.1 million as of December 31, 2020, 2021 and 2022, respectively. The increase of our contract assets from December 31, 2021 to December 31, 2022 was primarily due to our business growth. As of February 28, 2023, RMB2.5 million, accounting for approximately 5.3% of the RMB47.4 million contract assets as of December 31, 2022, had been subsequently certified.

In 2020, 2021 and 2022, our contract assets turnover days were 0.7 days, 0.7 days and 3.1 days, respectively. The contract assets turnover days is calculated using the average of the opening and closing contract assets balance divided by revenue for the relevant period and multiplied by the number of days during such period. The increase of contract assets turnover days from 0.7 days in 2021 to 3.1 days in 2022 was primarily because the balance of our contract assets increased along with our revenue growth.

Trade Receivables

Our trade receivables consist primarily of outstanding fees due from customers in connection with the transactions in connection with our solutions.

Throughout the Track Record Period, our trade receivables have generally continued to increase, which was primarily driven by the overall growth in the volume of transactions enabled by our solutions during the same period. As of December 31, 2020, 2021 and 2022, our trade receivables were RMB262.7 million, RMB778.3 million and RMB1,493.2 million, representing approximately 28%, 39% and 48% of our revenue of the years ended December 31, 2020, 2021 and 2022, respectively.

The following table sets forth our trade receivables turnover days for the years indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
Trade receivables turnover days[(1)]	86	94	134

Note:

(1) Trade receivables turnover days is calculated using the average of the opening and closing trade receivables balance divided by revenue for the relevant period and multiplied by the number of days during such period.

In 2020, 2021 and 2022, our trade receivables turnover days were 86 days, 94 days and 134 days, respectively. Our trade receivables turnover days increased from 86 days in 2020 to 94 days in 2021, as we granted longer credit terms to certain customers. Our trade receivables turnover days further increased to 134 days in 2022 primarily because (i) the balance of our trade receivables increased along with our revenue growth, (ii) our credit terms granted to customers generally increased as we expanded into new verticals and have more variety in our user cases, and (iii) to a lesser extent, we tend to accommodate customers' need for flexible payment schedule in light of the recurrence of COVID-19 in late 2022.

In 2020, 2021 and 2022, the turnover days of the aggregated trade receivables and contract assets were 86 days, 95 days and 138 days, respectively.

The following table sets for 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

Our trade receivables aged three to six months increased from RMB87.4 million as of December 31, 2020 to RMB231.3 million as of December 31, 2021, and our trade receivables aged six months to one year increased from RMB24.4 million to RMB128.1 million as of the same dates, primarily due to the increase of our revenue, and to a lesser extent, due to the longer credit terms we granted to certain customers. Our trade receivables aged over one year increased from RMB35.7 million as of December 31, 2021 to RMB188.6 million as of December 31, 2022, primarily because (i) the balance of our trade receivables increased along with our revenue growth, (ii) our credit terms granted to customers generally increased as we expanded into new verticals and have more variety in our user cases, and (iii) to a lesser extent, we tend to accommodate customers' need for flexible payment schedule in light of the recurrence of COVID-19 in late 2022. We recorded credit loss allowance of RMB5.3 million, RMB20.2 million and RMB61.2 million as of December 31, 2020, 2021 and 2022, accounting for approximately 2%, 3% and 4% of our trade receivables as at the same dates, respectively, primarily due to our revenue growth. As of February 28, 2023, RMB212.2 million, accounting for approximately 14.2% of the RMB1,493.2 million outstanding trade receivables as of December 31, 2022, had been subsequently settled. As of February 28, 2023, RMB27.3 million, accounting for approximately 8.9% of the RMB306.0 million outstanding trade receivables from non-top five customers that had aged more than 180 days as of December 31, 2022, had been subsequently settled. We do not anticipate to have any material recoverability issue with trade receivables primarily because (i) our trade receivables are mainly due from a selected group of customers with robust credit profiles and no known history of material defaults on their payment obligations; (ii) we assess our customers' credit quality carefully, taking into account their business background, the general risks associated with their industries, their financial position, past experience and other factors; (iii) throughout the Track Record Period, we have not experienced material recoverability issues for our trade receivables; and (iv) we have in place dedicated internal teams responsible for continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up on our customers to ensure their payments are made as scheduled.

The Reporting Accountant has performed its work on the financial information included in the Accountant's Report in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on pages I-1 to I-2 of Appendix I to this Document.

Prepayments and Other Receivables

The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Prepayments to suppliers	130,061	100,861	176,516
Deductible value-added input tax	18,739	46,631	80,001
Rental, bidding and other deposits	9,034	16,454	17,491
Interest receivables	7,027	2,722	61
[**REDACTED**] expenses to be capitalized	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Other receivable from a third party customer	–	50,959	47,000
Others	5,119	8,694	10,028
Total	169,980	272,002	380,064

Our prepayments and other receivables consist primarily of (i) prepayments to suppliers, (ii) deductible value-added input tax, (iii) rental, bidding and other deposits, (iv) interest receivables, (v) [**REDACTED**] expenses to be capitalized, (vi) other receivable from a third party customer, and (vii) others.

As of December 31, 2019, we had a loan to a third party that primarily engages in business of IT technology services and system integration, and is a customer of ours. The loan was repaid in full in 2020. During the Track Record Period and up to the Latest Practicable Date, other than as disclosed above and to the best of our knowledge, none of us, our Directors, Supervisors, senior management, or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) and any of their respective associates had any interest in, or any other past or present relationships (business, employment, family, trust, financing or otherwise) with such third party or its ultimate beneficial owner. Before granting the loan, we conducted comprehensive due diligence on such third party, such as its business background, financial condition, operating history, and payment history in our business cooperation. Based on the due diligence work, we believe such third party is creditable considering that, at the time of granting the loan, it had obtained various licenses and certifications requisite for its business operations, approximately ten years operating history, sufficient revenue and asset to recover the loan, and a registered capital of RMB20 million, and we did not experience any material defaults on its payment obligations as a customer. Therefore, we believe that the risk of default was relatively low. In addition, having considered that the term of the loan is relatively short, and to increase the yield of our cash on hand as we closed our Series C Financing before granting the loan, we provided the loan to such third party which will be used for general corporate and business expansion purposes pursuant to the relevant loan agreement. Negotiations of the terms of the loan and sales to this company were conducted separately, and the loan and sales were neither connected nor conditional upon each other. Our Directors confirmed our negotiations with such company were on an arm's length basis. The loan was a one-year term loan with an interest rate at 3.86% per annum with no collaterals. As of the Latest Practicable Date, the borrower has paid up the principal and the interest of the loan. Our PRC Legal Advisor advised us that Article 61 of the General Lending Provisions (《貸款通則》) issued by the PBOC prohibits any financing arrangements or lending transactions between non-financial institutions. Further, pursuant to Article 73 of the General Lending Provisions, the PBOC may impose on the non-compliant lender a fine of one to five times the income received by the lender from such loans. Our PRC Legal Advisor further advised that, notwithstanding the General Lending Provisions, the Supreme People's Court has made new interpretations concerning financing arrangements and lending transactions between non-financial institutions in the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "Judicial Interpretations on Private Lending Cases") which came into effect on September 1, 2015 and was amended on December 29, 2020. According to Article 11 of the Judicial Interpretations on Private Lending Cases, the Supreme People's Court recognizes the validity and legality of financing arrangements and lending transactions between non-financial institutions so long as certain requirements, such as the interest rates charged, are satisfied and there is no violation of mandatory provisions of laws and regulations. On this basis, our PRC Legal Advisor is of the view that the relevant loan agreements were legally binding. As at the Latest Practicable Date, we had not received any notice of claim or was subject to any investigation or penalty relating to the loans with the third party; and the loan had been fully settled. On this basis, our PRC Legal Advisor is of the view that the risk of us being penalized for the above mentioned loan pursuant to the General Lending Provisions by the relevant regulatory authorities is remote.

Our prepayments and other receivables increased from RMB170.0 million as of December 31, 2020 to RMB272.0 million as of December 31, 2021, primarily because (i) we recorded RMB51.0 million in other receivable from a third party customer in 2021, primarily due to our procurement of hardware to facilitate delivery of Sage Platform and applications to an end user (see Note 22(a) to the Accountant's Report in Appendix I to this Document), and (ii) we recorded RMB[**REDACTED**] in [**REDACTED**] expenses in 2021.

Our prepayments and other receivables increased from RMB272.0 million as of December 31, 2021 to RMB380.1 million as of December 31, 2022, primarily because our prepayments to suppliers in 2021 increased from RMB100.9 million as of December 31, 2021 to RMB176.5 million as of December 31, 2022, primarily as a result of our business growth. As of February 28, 2023, RMB47.3 million, accounting for approximately 12.4% of the RMB380.1 million outstanding prepayments and other receivables as of December 31, 2022 had been subsequently settled.

Cash and Cash Equivalents

Our cash and cash equivalents were RMB1,052.1 million, RMB1,292.7 million and RMB1,326.8 million, respectively, as of December 31, 2020, 2021 and 2022. Our cash and cash equivalents overall remained relatively stable during the Track Record Period. See "Liquidity and Capital Resources."

Liabilities

Redemption Liabilities

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 the investors in certain situations. Since the date of our inception to December 31, 2022, we have completed several rounds of financing including Series A, Series A-1, Series A-2, Series B-1, Series B-2, Series C, Series C-1, Series C-2, Series D and Series D+, in the way of capital increase of the Company and capital transfer from founders to investors. The key terms of the preferred rights granted to these investors may include: (i) redemption right, a right to require the Company to redeem their investments under circumstances such as failure to achieve a [**REDACTED**] ("[**REDACTED**]") by the third anniversary of the initial closing date of Series D, (ii) liquidation preferences, which means in the defined liquidation events, the distributable liquidation property (after satisfaction of all creditors' claims and other preferred claims) shall be distributed in the amount equal to the higher of (a) 100% of the original investment principal, plus the accumulated dividends or declared but undistributed dividends (and retained earnings) on the equity held; or (b) the distributable liquidation property can be distributed according to the equity proportion at that time, and in the priority order of Series D+/Series D, Series C-2, Series C-1, Series C, Series B, Series A-2, Series A-1 to Series A, and (iii) anti-dilution right, pursuant to which if the Company increases its registered capital at a price lower than the price paid by the anti-dilution right holders, the subscription price per unit invested by these holders in the Company will be adjusted. The redemption rights and liquidation preferences granted to the investors constitute as the Company's obligations to repurchase its own equity instruments. These obligations were recognized as redemption liabilities which are initially measured at fair value (representing the present value of the expected cash flows for settling the related obligations if these rights are exercised by the investors) and subsequently measured at amortized cost. 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. The significant increase of redemption rights from that as of December 31, 2020 to that as of December 31, 2022 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.

The following table sets forth the carrying amounts of our redemption liabilities.

	As of December 31,			As of February 28,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Redemption liabilities				
– Non-current	2,147,031	5,822,196	6,493,159	–
– Current	–	–	–	6,622,285
Total	2,147,031	5,822,196	6,493,159	6,622,285

Other Non-Current Liabilities

Our other non-current liabilities consist primarily of (i) deferred government grants, (ii) advance from investors, and (iii) payable for acquisition of subsidiaries. We had other non-current liabilities of RMB772.1 million, RMB66.5 million and RMB53.7 million, respectively, as of December 31, 2020, 2021 and 2022. The decrease of our other non-current liabilities from December 31, 2020 to December 31, 2021 was primarily attributable to the decrease in advance from investors from RMB771.7 million as of December 31, 2020 to nil as of December 31, 2021. This decrease in advance from investors was primarily due to the settlement of the amount of advance from our investors upon closing of our Series D financing.

Other Payables and Accruals

Our other payables and accruals primarily related to our employee benefits during the Track Record Period, primarily consisting of payroll payables, taxes payables and accrued expenses and others. The following table sets forth our other payables, accruals and other liabilities as of the dates indicated.

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Payroll payables	50,763	75,301	118,223
[**REDACTED**] expenses payable	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Other taxes payables	19,498	39,718	37,997
Expense reimbursement	921	6,178	6,998
Payable to a third party hardware supplier	–	31,000	32,300
Accrual expenses and others	2,184	14,353	2,369
	73,366	183,863	226,161

Other payables and accruals were RMB73.4 million, RMB183.9 million and RMB226.2 million as of December 31, 2020, 2021 and 2022, respectively. The significant increase of our other payables and accruals from December 31, 2020 to December 31, 2021 was primarily because (i) we recorded RMB31.0 million in payable to a third party hardware supplier, primarily due to our procurement of hardware to facilitate delivery of Sage Platform and applications, and (ii) our payroll payables increased from RMB50.8 million as of December 31, 2020 to RMB75.3 million as of December 31, 2021, due to the increase of our employees headcounts in line with our business growth. In 2021, we cooperated with a hardware supplier to deliver software and hardware together to a customer, and we acted as an agent for purchasing certain hardware on behalf of the customer while we acted as a principal in delivering the software to the customer pursuant to the sales agreement with the customer. For details, see Note 22(a) to the Accountant's Report in Appendix I to this Document. Such transaction was a one-time arrangement pursuant to the request of such customer.

Trade Payables

Our trade payables consist primarily include payables for inventories and outsourcing service fees. During the Track Record Period, driven by the rapid growth in the volume of transactions enabled by our solutions, our trade payables has generally continued to increase, from RMB85.0 million as of December 31, 2020 to RMB321.4 million as of December 31, 2021, and further to RMB863.2 million in 2022 . The significant increase of our trade payables from that as of December 31, 2020 to that as of December 31, 2022 was primarily due to the increase of our procurement amount, driven by our business growth.

The following table sets forth our trade payables turnover days for the years indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
Trade payables turnover days[(1)]	36	70	135

Note:

(1) Trade payables turnover days is calculated using the average of the opening and closing trade payables balance divided by cost of sales for the relevant period and multiplied by the number of days during such period.

In 2020, 2021 and 2022, our trade payables turnover days were 36 days, 70 days and 135 days, respectively. Our trade payables turnover days increased throughout the Track Record Period primarily because we built trust with our suppliers and gained more bargaining power as our business developed, and thus we were able to negotiate for longer settlement terms in the transactions in connection with our solutions.

As of February 28, 2023, RMB327.9 million, accounting for approximately 38.0% of the RMB863.2 million trade payables as of December 31, 2022, had been subsequently settled.

Lease Liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements. We recorded non-current lease liabilities of RMB17.6 million, RMB11.0 million, RMB43.7 million and RMB40.3 million, respectively, as of December 31, 2020, 2021, 2022 and February 28, 2023. We recorded current lease liabilities of RMB21.2 million, RMB24.4 million, RMB28.3 million and RMB27.2 million, respectively, as of December 31, 2020, 2021 and 2022 and February 28, 2023. During the Track Record Period, we have obtained the right to use certain office buildings through lease agreements with terms typically running for an initial period of one to three years.

KEY FINANCIAL RATIO

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 the 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 growth rate was 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 overall costs and selling and marketing.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from capital contributions from shareholders. After the [**REDACTED**], we intend to finance our future capital requirements through equity financing activities and debt financing activities in a balanced manner. We do not anticipate any changes to the availability of financing to fund our operation in the future.

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

	Year ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Cash used in operating activities			
Operating cash flows before movements in working capital	(365,959)	(576,136)	(516,157)
Changes in working capital	(87,879)	(202,298)	(285,517)
Cash used in operations	(453,838)	(778,434)	(801,674)
Interest received	898	11,113	27,122
Income tax paid	–	(2,687)	(5,037)
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

Net Cash Used in Operating Activities

In 2022, our net cash used in operating activities was RMB779.6 million. The difference between our net cash generated from operating activities and our loss before taxation primarily resulted from (i) share-based payment expenses of RMB433.4 million, (ii) interest expenses of RMB681.9 million, and (iii) an increase in trade payables of RMB523.0 million partially offset by (i) an increase in trade receivables of RMB715.9 million and (ii) an increase in inventories of RMB135.2 million.

In 2021, our net cash used in operating activities was RMB770.0 million. The difference between our net cash generated from operating activities and our loss before taxation primarily resulted from (i) share-based payment expenses of RMB603.6 million, (ii) interest expenses of RMB646.8 million and (iii) increase in trade payables of RMB217.2 million, partially offset by increase in trade receivables of RMB420.1 million.

In 2020, our net cash used in operating activities was RMB452.9 million. The difference between our net cash generated from operating activities and our loss before taxation primarily resulted from (i) interest expenses of RMB188.7 million, (ii) share-based payment expenses of RMB173.7 million, (iii) increase in trade payables of RMB69.7 million and (iv) increase in contract liabilities of RMB56.3 million, partially offset by (i) increase in trade receivables of RMB85.5 million, (ii) increase in prepayments and other receivables of RMB80.6 million, (iii) decrease in other payables and accruals of RMB23.8 million and (iv) fair value changes on financial assets at fair value through profit or loss of RMB18.4 million.

Our ability to improve our net operating cash flow is largely depending on our ability to improve profitability. In this regard, we plan to improve our net operating cash outflow positions by (i) effectively attracting and retaining our users to drive our revenue growth and profitability, (ii) continuing to create value for users to explore additional monetization opportunities that help us scale up our revenues and to achieve profitability, and (iii) effectively managing our cost and expenses by improving our operational efficiency. For details of our plan to improve our financial performance, see "Business – Business Sustainability and Path to Profitability." With our improving profitability, we also expect our operating cash flow to improve concurrently. Moreover, we plan to enhance our working capital management efficiency to improve our net operating cash outflow positions. We plan to enhance our management of trade receivables by continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up on our customers to ensure their payments as scheduled. We plan to increase the focus on trade receivable collection when evaluating the performance of our sales team. In addition, 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. 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. Specifically, as we scale up, we expect to have stronger bargaining power against our suppliers and are thus able to obtain more favorable credit terms. That being said, as our future profitability is subject to various factors, **we may continue to incur net losses and net operating cash outflow in the near future, including the year ending December 31, 2023**.

Net Cash (Used in)/Generated from Investing Activities

In 2022, our net cash generated from investing activities was RMB822.4 million, consisting primarily of (i) proceeds from disposal of short-term investments measured at fair value through profit or loss of RMB3,955.8 million, (ii) withdrawal of term bank deposits of RMB130.0 million, and (iii) investment income received of RMB71.8 million, partially offset by (i) purchase of short-term investments measured at fair value through profit or loss of RMB2,763.5 million, (ii) placement of term bank deposits of RMB270.0 million, and (iii) purchase of long-term investments measured at fair value through profit or loss of RMB166.7 million.

In 2021, our net cash used in investing activities was RMB3,199.6 million, consisting primarily of (i) purchase of short-term investments measured at fair value through profit or loss of RMB7,650.8 million, (ii) placement of term bank deposits of RMB520.0 million and (iii) acquisition net of cash acquired of RMB254.7 million, partially offset by (i) disposal of short-term investments measured at fair value through profit or loss of RMB5,321.5 million and (ii) withdrawal of short-term bank deposits of RMB95.6 million.

In 2020, our net cash used in investing activities was RMB139.1 million, primarily attributable to (i) purchase of short-term investments measured at fair value through profit or loss of RMB2,656.2 million, (ii) placement of short-term bank deposits of RMB95.6 million and (iii) purchase of property and equipment and intangible assets of RMB51.3 million, partially offset by (i) repayment of loan by a third party of RMB135.0 million and (ii) disposal of short-term investments measured at fair value through profit or loss of RMB2,553.7 million.

Net Cash Generated from/(Used in) Financing Activities

In 2022, our net cash used in financing activities was RMB9.0 million, primarily attributable to (i) payment of lease liabilities of RMB28.4 million, and (ii) payment of [**REDACTED**] expenses to be capitalized of RMB[**REDACTED**], partially offset by proceeds from borrowings of RMB50.6 million.

In 2021, our net cash generated from financing activities was RMB4,210.0 million, primarily attributable to proceeds injected by founders and investors of RMB4,283.5 million.

In 2020, our net cash generated from financing activities was RMB942.4 million, primarily attributable to proceeds injected by founders and investors of RMB969.3 million.

Working Capital

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 – 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.

CAPITAL EXPENDITURES

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.

The following table sets forth our capital expenditures for the years indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Property and equipment	29,036	15,474	15,544
Intangible assets	22,239	401,345	98,389
Total	51,275	416,819	113,933

We expect to finance our capital expenditures through cash generated from operations, our existing bank borrowings and the net [**REDACTED**] from the [**REDACTED**]. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, our results of operations and financial condition, our business plans, market conditions and various other factors. See also "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**]."

INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of borrowings, lease liabilities and redemption liabilities. The following table sets forth details of our indebtedness as of the dates indicated:

	As of December 31,			**As of February 28,**
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*
Current				
Borrowings	–	3,752	48,554	62,631
Lease liabilities	21,185	24,364	28,311	27,158
Redemption liabilities	–	–	–	6,622,285

	As of December 31,			As of February 28,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Non-current				
Borrowings	–	15,000	24,000	24,000
Lease liabilities	17,590	11,000	43,721	40,308
Redemption liabilities	2,147,031	5,822,196	6,493,159	–
Total	2,185,806	5,876,312	6,637,745	6,776,382

Borrowings

As of December 31, 2020, we did not have any bank borrowings or unutilized banking facilities. The following table sets forth our interest-bearing borrowings as of the dates indicated:

	As of December 31,			As of February 28,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Included in current liabilities				
Secured borrowings	–	–	11,000	13,800
Factoring borrowings	–	3,752	5,894	7,171
Unsecured borrowings	–	–	31,660	41,660
Total	–	3,752	48,554	62,631
Included in non-current liabilities				
Secured borrowings	–	–	9,000	9,000
Unsecured borrowings	–	15,000	15,000	15,000
Total	–	15,000	24,000	24,000

Our current secured borrowings as of December 31, 2022 consist of (i) RMB1.0 million bank borrowings by one of our subsidiaries, Guangzhou Jianxin, with fixed interest rate of 3.85% per annum and repayable by December 2023; (ii) RMB9.0 million borrowings by one of our subsidiaries, EpicHust, with fixed interest rates ranging from 4.30%-5.00% per annum and repayable by April or June 2023; and (iii) RMB1.0 million of RMB10.0 million 3-year bank borrowings by Guangzhou Jianxin, with interest rate per annum being the sum of 1-year Loan Prime Rate and 0.8%, 5% among which should be repaid every half year and the remaining principal should be repaid by September 2025 ("Jianxin Loan"). The borrowings are guaranteed by us and secured by the pledge over Guangzhou Jianxin's patent rights. See Note 30(a) to the Accountant's Report in Appendix I to this Document.

Our current secured borrowings increased from RMB11.0 million as of December 31, 2022 to RMB13.8 million as of February 28, 2023 because Guangzhou Jianxin had additional interest-bearing bank borrowings of RMB2.8 million, which are repayable by October 2023. The borrowings are guaranteed by us and secured by the pledge over Guangzhou Jianxin's patent rights.

Our non-current secured borrowings as of December 31, 2022 consist of RMB9.0 million of Jianxin Loan, which is repayable by September 2025.

Our current unsecured borrowings as of December 31, 2022 consist of (i) RMB25.7 million bank borrowings by Guangzhou Jianxin, with fixed interest rates ranging from 4.50%-4.85% per annum, which are guaranteed by the Company and are repayable by May or June 2023, and (ii) RMB6.0 million bank borrowings by EpicHust, with fixed interest rates ranging from 4.00%-4.20% per annum, which are unsecured and repayable by November or December 2023.

Our current unsecured borrowings increased from RMB31.7 million as of December 31, 2022 to RMB41.7 million as of February 28, 2023 because EpicHust had additional interest bearing bank borrowings of RMB10.0 million, which are repayable by January 2024.

Our non-current unsecured borrowings primarily consist of RMB15.0 million borrowed by Guangzhou Jianxin, from its non-controlling shareholder, which is unsecured, interest-free and repayable on demand after June 30, 2024.

For details, see Note 30 to the Accountant's Report in Appendix I to this Document.

Lease Liabilities

For details of our lease liabilities, see "– Liabilities – Lease Liabilities."

Redemption Liabilities

For details of our redemption liabilities, see "– Liabilities – Redemption Liabilities."

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2020, 2021, 2022 and February 28, 2023.

Our Directors confirm that as of the Latest Practicable Date, the agreements under our borrowings did not contain any covenant that would have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors further confirm that we had no defaults in bank and other borrowings, nor did we breach any covenants (that were not waived) during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties in obtaining credit facilities, or withdrawal of facilities or requests for early repayment.

Save as otherwise disclosed under sections headed "– Indebtedness" and "– Contractual Obligations," we did not have any outstanding loan, capital issued or agreed to be issued, debt securities, mortgages, charges, debentures, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments or other contingent liabilities as of February 28, 2023, being the latest practicable date for our indebtedness statement. Our Directors confirm that, as of the Latest Practicable Date, there had been no material change in our indebtedness since February 28, 2023.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Our capital commitments are related to our equity investment. Our capital expenditure contracted for but not yet incurred as of December 31, 2020, 2021 and 2022 was RMB35.0 million, RMB20.0 million and nil, respectively. We expect to satisfy our capital commitments using cash from operations, net [**REDACTED**] to be received from the [**REDACTED**] and bank borrowings available to us.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 36 to the Accountant's Report included in Appendix I to this Document was conducted in the ordinary course of business on an arm's-length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance. Our balances with related parties as of December 31, 2022 as set out in Note 36 to the Accountant's Report in Appendix I to this Document are all trade in nature.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to a variety of market risks, including foreign currency risk, interest rate risk and price risk, as well as credit risks and liquidity risks, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market Risk

(i) Foreign exchange risk

Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of entities comprising us. We operate mainly in the PRC with most of the transactions settled in RMB.

(ii) Interest rate risk

Our interest rate risk primarily arose from redemption liabilities, borrowings, term bank deposits and cash and cash equivalents. Those carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk.

(iii) Price risk

We are exposed to price risk in respect of the long-term investments and short-term investments held by us and classified in the balance sheet as at fair value through profit or loss. We are not exposed to commodity price risk. To manage the price risk arising from the investments, we diversify our portfolio. The investments are managed by management one by one, either for strategic purposes, or for the purpose of achieving investment yield and balancing our liquidity level simultaneously. The sensitivity analysis is performed by management.

Credit Risks

We are exposed to credit risk in relation to our cash and cash equivalents, restricted cash, term bank deposits, short-term investments measured at fair value through profit or loss, trade receivables, other receivables and contract assets. The carrying amounts of each class of the above financial assets and contract assets represent our maximum exposure to credit risk in relation to financial assets and contract assets.

To manage risk arising from cash and cash equivalents, restricted cash, term bank deposits and short-term investments measured at fair value through profit or loss, we only transact with state-owned or reputable financial institutions. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables and contract assets, we have policies in place to ensure that sales with credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers is assessed by taking into account their financial position, past experience and other factors.

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. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in our outstanding other receivables balances due from them is low.

Liquidity Risks

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet our liquidity requirements.

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;
- 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.

DISTRIBUTABLE RESERVES

As of December 31, 2022, we did not have any distributable reserves.

[REDACTED] EXPENSES

Our [**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**]. Assuming full payment of the discretionary incentive fee, the estimated total [**REDACTED**] expenses (based on the midpoint of the [**REDACTED**] Range and assuming that the [**REDACTED**] is not exercised) for the [**REDACTED**] are approximately HK$[**REDACTED**], an equivalent to approximately RMB[**REDACTED**], accounting for [**REDACTED**]% of our gross [**REDACTED**]. These [**REDACTED**] expenses comprise of (i) HK$[**REDACTED**] of [**REDACTED**] expenses (including but not limited to commissions and fees); and (ii) HK$[**REDACTED**] of [**REDACTED**] expenses, including HK$[**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**].

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

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 since December 31, 2022, the end of the period reported on the Accountant's Report included in Appendix I to this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure required under Rules 13.13 to 13.19 of the Listing Rules.