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SenseTime Group Inc.

商汤集团股份有限公司

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

(Stock Codes: 0020 (HKD Counter) and 80020 (RMB Counter))

ANNOUNCEMENT

THE ENTERING INTO OF NEW CONTRACTUAL ARRANGEMENTS FOR THE AIDC OPERATION

THE NEW CONTRACTUAL ARRANGEMENTS

The Board is pleased to announce that, for the purposes of facilitating further AIDC operation of the Group in the PRC, on January 29, 2024, Shanghai SenseTime Digital (an indirect wholly-owned subsidiary of the Company) entered into a series of New Contractual Arrangements with the OpCo and/or the Individual Shareholders. The OpCo will be principally engaged in the operation of AIDC in the PRC, which is subject to foreign ownership restrictions under the PRC laws and regulations as set out below.

Through the New Contractual Arrangements, Shanghai SenseTime Digital will have effective control over the finance and operation of the OpCo, and will enjoy the economic interests and benefits generated by the OpCo. The Company has discussed with its auditors regarding the consolidation of the financial results of the OpCo under the prevailing accounting principles. Based on the New Contractual Arrangements and the legal opinion provided by the Company's PRC Legal Adviser, the Company concluded that upon the entering into of the New Contractual Arrangements, it is appropriate to consolidate the financial results of the OpCo into the consolidated financial statements of the Group under the prevailing accounting principles, and the OpCo will be treated as a controlled structured entity of the Company.

IMPLICATIONS UNDER THE LISTING RULES

At the time of the Listing, the Company sought, and the Stock Exchange granted, the IPO Waiver in connection with the continuing connected transactions of the Group in the form of the Relevant Contractual Arrangements. The IPO Waiver is subject to certain conditions including, among others, on the basis that the Relevant Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Shanghai Qianlun and Shanghai SenseTime Technology Development (each being a consolidated affiliated entity of the Group), on the other hand, that the framework may be renewed and/or reproduced (a) upon the expiry of the existing arrangements or (b) in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, and on substantially the same terms and conditions as the Relevant Contractual Arrangements.

Each of the Individual Shareholders is a connected person of the Company at subsidiary level by virtue of being a substantial shareholder and (in respect of Mr. Yang Fan) directors of Shanghai Qianlun and Shanghai Shangchou, each a consolidated affiliated entity of the Group. As such, the New Contractual Arrangements and the transactions contemplated thereunder constitute continuing connected transactions under Chapter 14A of the Listing Rules.

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

In addition, according to Rule 14A.52 of the Listing Rules, the term of the New Contractual Arrangements must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. Taking into account the terms of the New Contractual Arrangements, Red Sun Capital Limited has been appointed as the independent financial adviser of the Company to explain why the New Contractual Arrangements require a longer period and to confirm that it is normal business practice for agreements of such type to be of such duration.

INTRODUCTION

The Board is pleased to announce that, for the purposes of facilitating further Artificial Intelligence Data Centre (AIDC) operation of the Group in the PRC, on January 29, 2024, Shanghai SenseTime Digital (an indirect wholly-owned subsidiary of the Company) entered into a series of New Contractual Arrangements with the OpCo and/or the Individual Shareholders. The OpCo will be principally engaged in the operation of AIDC in the PRC, which is subject to foreign ownership restrictions under the PRC laws and regulations as set out below.

Through the New Contractual Arrangements, Shanghai SenseTime Digital will have effective control over the finance and operation of the OpCo, and will enjoy the economic interests and benefits generated by the OpCo. The Company has discussed with its auditors regarding the consolidation of the financial results of the OpCo under the prevailing accounting principles. Based on the New Contractual Arrangements and the legal opinion provided by the Company's PRC Legal Adviser, the Company concluded that upon the entering into of the New Contractual Arrangements, it is appropriate to consolidate the financial results of the OpCo into the consolidated financial statements of the Group under the prevailing accounting principles, and the OpCo will be treated as a controlled structured entity of the Company.

INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS

Background and reasons for the use of the New Contractual Arrangements

As advised by the PRC Legal Adviser, the AIDC operations intended to be carried out by the OpCo is regarded as the business of internet data center, which falls within the scope of "value-added telecommunication services" under the Telecommunications Regulations (《中華人民共和國電信條例》) and the Telecommunications Business Catalog (《電信業務分類目錄》) of the PRC published by the Ministry of Industry and Information Technology of the PRC (the "MIIT"). The operation of such business would therefore require the Value-added Telecommunications Business Operation Permit with Internet Data Center Services (i.e. the IDC License) under the PRC laws, and the OpCo has submitted an application for the IDC License as at the date of this announcement.

The IDC License is subject to foreign ownership restrictions under the PRC laws and regulations. Foreign investment activities in the PRC are mainly governed by the Foreign Investment Law (《中華人民共和國外商投資法》), Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the "Negative List") and the Catalog of Industries for Encouraging Foreign Investment (2022 Version) (《鼓勵外商投資產業目錄(2022年版)》) of the PRC (the "Encouraging Catalog (2022)") promulgated and amended from time to time by the Ministry of Commerce and the National Development and Reform Commission of the PRC. The Negative List and the Encouraging Catalog (2022) divide industries into four categories in terms of foreign investment, namely, "encouraged", "restricted", "prohibited" and "permitted" (the last category of which includes all industries not listed under the "encouraged", "restricted" and "prohibited" categories).

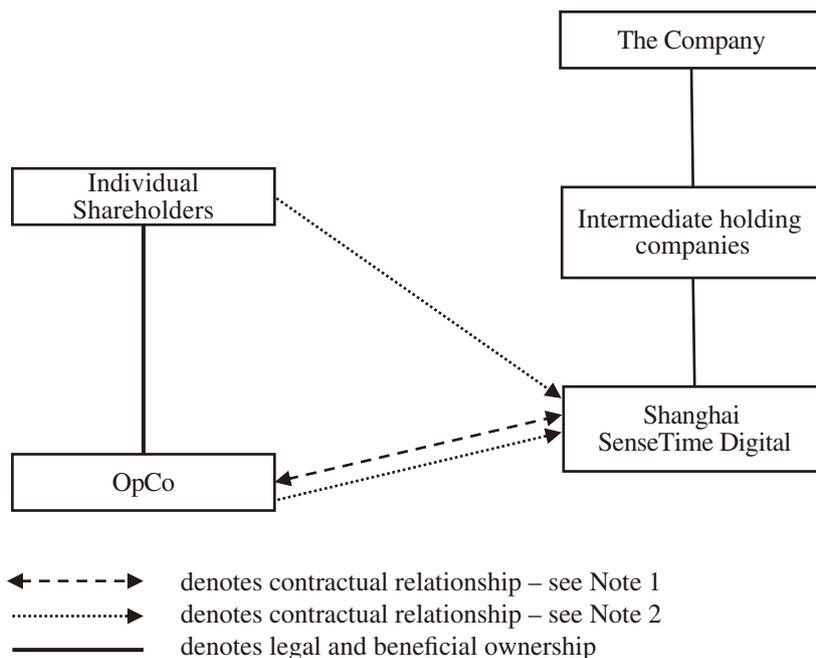
Pursuant to the Negative List, other than certain exceptions allowed for telecommunication service providers in Hong Kong or Macau under the Closer Economic Partnership Arrangement (“CEPA”), no enterprise which are partly or wholly owned by foreign investors are allowed to apply for, or to hold an IDC License. As at the date of this announcement, as none of the Company or any member of the Group is a telecommunication service provider in Hong Kong or Macau, none of the Company or any member of the Group is eligible to rely on the aforementioned foreign ownership exceptions under the CEPA.

Accordingly, given that a foreign investor is restricted from holding equity interest in an entity which holds IDC License under the PRC laws and regulations, the Company is unable to directly or indirectly hold any equity interest in a PRC company holding IDC License.

In order to comply with the relevant PRC laws and regulations while achieving the commercial intention of the parties, the New Contractual Arrangements have therefore been entered into between the parties, pursuant to which Shanghai SenseTime Digital will have effective control over the finance and operations of the OpCo, and will enjoy the entire economic interests and benefits generated by the OpCo despite the lack of registered equity ownership.

Structure of the New Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from the OpCo to the Group under the New Contractual Arrangements entered into amongst Shanghai SenseTime Digital, the OpCo and/or the Individual Shareholders:



Notes:

- (1) Shanghai SenseTime Digital will provide comprehensive business support, technical and related consultancy services in consideration for service fees from the OpCo pursuant to the Exclusive Business Cooperation Agreement as described below.
- (2) Each of the Individual Shareholders has executed the Exclusive Call Option Agreement in favour of Shanghai SenseTime Digital as described below, pursuant to which Shanghai SenseTime Digital and/or its designee(s) have been granted an option to purchase the whole or any part of equity interest and/or assets in the OpCo from the Individual Shareholders.

Each of the Individual Shareholders has executed the Equity Pledge Agreement as described below, pursuant to which the Individual Shareholders have pledged all of the respective equity interest held by them in the OpCo to Shanghai SenseTime Digital.

Each of the Individual Shareholders has executed the Power of Attorney as described below, pursuant to which the Individual Shareholders have agreed to appoint Shanghai SenseTime Digital or directors recommended by the board of directors of its overseas parent company (i.e. the Company) designated by Shanghai SenseTime Digital or his/her successors or liquidators replacing such person to act on their behalf to exercise all shareholders' rights in the OpCo on their behalf.

Details of the New Contractual Arrangements

Set out below are the principal terms of each of the New Contractual Arrangements:

(i) *Exclusive Business Cooperation Agreement*

Parties: (1) Shanghai SenseTime Digital; and
 (2) the OpCo.

Term: The Exclusive Business Cooperation Agreement is for an initial term of ten years and Shanghai SenseTime Digital has the right to extend the term until Shanghai SenseTime Digital and/or its designee hold the entire equity interests and/or the entire assets of the OpCo and that Shanghai SenseTime Digital and its subsidiaries are able to conduct the business of the OpCo legally. If Shanghai SenseTime Digital fails to confirm the extension of the term at the expiration of the term of the Exclusive Business Cooperation Agreement, the term of the Exclusive Business Cooperation Agreement shall be automatically extended until Shanghai SenseTime Digital serves a notice stipulating the length of the extension of the term.

In addition, Shanghai SenseTime Digital shall be entitled to terminate the Exclusive Business Cooperation Agreement at any time during the term of the Exclusive Business Cooperation Agreement with 30 days' prior written notice to the OpCo.

Subject to any mandatory requirements under the PRC laws, the OpCo has no right to terminate the Exclusive Business Cooperation Agreement unilaterally.

Subject Matter: The OpCo agrees to engage Shanghai SenseTime Digital as its exclusive service provider to provide the OpCo with comprehensive business support, technical and related consultancy services, including but not limited to technical services, network support, business consultation, licensing of intellectual properties, system integration, product research and development, system maintenance and management consultancy services related to the OpCo's business operation or (to the extent permitted by the PRC laws) other related consultancy and other services as may be requested by the OpCo from time to time.

In addition, the Exclusive Business Cooperation Agreement also provides that, among others:

- (a) Shanghai SenseTime Digital has the exclusive proprietary rights and interests to all intellectual property rights developed or created by Shanghai SenseTime Digital or the OpCo and/or subsidiaries controlled by it during the performance of the Exclusive Business Cooperation Agreement;
- (b) without the written consent of Shanghai SenseTime Digital, the OpCo shall not, and shall procure the subsidiaries controlled by it not to, transfer, assign, pledge, license or otherwise encumber any rights, ownership, interests and all intellectual property rights developed or created by it and the subsidiaries controlled by it during the performance of the Exclusive Business Cooperation Agreement, including but not limited to all current and future copyright, patents (including invention patent, utility model patent and design patent), patent applications, trademarks, trade names, branding, software, technical secrets, trade secrets, all associated goodwill, domain names and other similar rights;
- (c) in addition to the retention of any existing directors or supervisors of the OpCo as agreed by Shanghai SenseTime Digital, the OpCo shall appoint persons designated by Shanghai SenseTime Digital as its directors, general manager, chief financial officer and other senior management subject to compliance with the PRC laws and the articles of association of the OpCo. Subject to compliance with the PRC laws, except for retirement, resignation, incompetence or death, the OpCo shall not remove or dismiss the directors of the OpCo designated by Shanghai SenseTime Digital, unless with the prior written consent of Shanghai SenseTime Digital. The OpCo shall procure its directors and senior management to exercise their powers afforded to it under the PRC laws and the articles of association of the OpCo in accordance with the instruction of Shanghai SenseTime Digital;

- (d) Shanghai SenseTime Digital has the right to operate businesses relating to the services provided under the Exclusive Business Cooperation Agreement on behalf of the OpCo and the OpCo shall provide all necessary facilitation and support, including but not limited to all necessary authorization;
- (e) Shanghai SenseTime Digital has the right to inspect the accounts of the OpCo regularly or at any time subject to compliance with the PRC laws; and
- (f) the OpCo shall pass the custody, use and control of the certificates and seals (including business license, certificate of organization code (if any), company seal, contractual seal, financial seal and legal representative seal) which are essential to the OpCo's daily operations to directors or senior management of the OpCo designated by Shanghai SenseTime Digital.

In addition, in the absence of the prior written consent of Shanghai SenseTime Digital, during the term of the Exclusive Business Cooperation Agreement, with respect to the matters stipulated thereunder, the OpCo shall not, and shall procure the subsidiaries controlled by it not to, accept any consultation and/or other services provided by any third party and shall not establish cooperation relationships with any third party. Shanghai SenseTime Digital may appoint other parties, who may enter into additional agreements with the OpCo, to provide the consultation and/or other services under the Exclusive Business Cooperation Agreement to the OpCo.

Fee: The OpCo shall pay a service fee to Shanghai SenseTime Digital equivalent to the OpCo's profit before tax, deducting its operating costs, expenses, tax and profits required to be retained pursuant to the arm's length principle under the PRC laws in relation to the relevant financial year.

(ii) Exclusive Call Option Agreement

Parties:

- (1) Shanghai SenseTime Digital;
- (2) the Individual Shareholders; and
- (3) the OpCo.

Term: The Exclusive Call Option Agreement is for an initial term of ten years and Shanghai SenseTime Digital has the right to extend the term until Shanghai SenseTime Digital and/or its designee hold the entire equity interests and/or the entire assets of the OpCo and that Shanghai SenseTime Digital and its subsidiaries are able to conduct the business of the OpCo legally. If Shanghai SenseTime Digital fails to confirm the extension of the term at the expiration of the term of the Exclusive Call Option Agreement, the term of the Exclusive Call Option Agreement shall be automatically extended until Shanghai SenseTime Digital serves a notice stipulating the length of the extension of the term.

In addition, Shanghai SenseTime Digital shall be entitled to terminate the Exclusive Call Option Agreement at any time during the term of the Exclusive Call Option Agreement with 30 days' prior written notice to the Individual Shareholders and the OpCo.

Subject to any mandatory requirements under the PRC laws, the OpCo and the Individual Shareholders have no right to terminate the Exclusive Call Option Agreement unilaterally.

Subject Matter and Consideration: Pursuant to the Exclusive Call Option Agreement, Shanghai SenseTime Digital has the irrevocable and exclusive right to purchase, or to designate one or more entities to purchase, (i) from the Individual Shareholders all or any part of their equity interests in the OpCo and/or (ii) from the OpCo all or any part of the assets of the OpCo, at any time and from time to time in Shanghai SenseTime Digital's absolute discretion to the extent permitted under the PRC laws.

The consideration payable by Shanghai SenseTime Digital and/or its designee upon the exercise of the aforementioned option to purchase shall be a nominal price or other price approved by Shanghai SenseTime Digital, provided that if the relevant governmental authority or the PRC laws require that the consideration shall be another price, the consideration shall be the lowest price as permitted under the applicable PRC laws or such other price approved by Shanghai SenseTime Digital.

In addition, subject to compliance with the then prevailing PRC laws, the Individual Shareholders and the OpCo have also undertaken that, each of them will return to Shanghai SenseTime Digital and/or its designee any consideration received by them as a result of the exercise of the option under the Exclusive Call Option Agreement.

Undertakings: The Individual Shareholders and the OpCo have severally and irrevocably covenanted that, amongst others:

- (a) without the prior written consent of Shanghai SenseTime Digital, the Individual Shareholders shall not, and the OpCo's shareholders meeting and/or the board of directors (or the executive director) shall not approve the Individual Shareholders to sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the OpCo, or allow the encumbrance thereon of any security interest, except for the pledge under the Equity Pledge Agreement and/or other New Contractual Arrangements;
- (b) without the prior written consent of Shanghai SenseTime Digital, the OpCo shall not, and the Individual Shareholders shall procure the OpCo not to, sell, transfer, pledge or dispose of in any manner any assets of the OpCo or the legal or beneficial interest in the business or revenues of the OpCo, or allow any encumbrance thereon;
- (c) the OpCo shall, and the Individual Shareholders shall use their best effort to, maintain the OpCo's corporate existence, and the legality and validity of the OpCo's operating licenses, and to procure the renewal of the OpCo's operating licenses in accordance with the applicable laws. Unless otherwise mandatorily required by any applicable PRC laws, the OpCo shall not be dissolved or liquidated, save as agreed by Shanghai SenseTime Digital in writing;
- (d) upon request by Shanghai SenseTime Digital, (a) the OpCo shall appoint, and the Individual Shareholders shall procure, the appointment of, any persons designated by Shanghai SenseTime Digital as the director, supervisor and/or senior management of the OpCo and/or (b) the OpCo shall remove, and the Individual Shareholders shall procure the removal of, any existing directors, supervisors and/or senior management of the OpCo, and the OpCo shall, and the Individual Shareholders shall procure the OpCo to, comply with the relevant corporate and filing procedures;
- (e) the OpCo shall obtain, and the Individual Shareholders shall procure, the approval by the shareholders meeting and/or the board meeting of the OpCo of resolutions as instructed by Shanghai SenseTime Digital, including but not limited to the approval for the transfer of the purchased equity and/or the purchased assets in accordance with the Exclusive Call Option Agreement and taking any and all other actions as Shanghai SenseTime Digital requests;

- (f) without the prior written consent of Shanghai SenseTime Digital, the OpCo shall not, and the Individual Shareholders shall procure the OpCo not to, in any manner distribute dividends to its shareholders, and the Individual Shareholders shall not request the OpCo to distribute dividends or implement any other form of profit distribution in respect of the equity in the OpCo held by the Individual Shareholders and shall not propose any board resolutions of the OpCo in relation to such matter, provided that upon the written request of Shanghai SenseTime Digital, the OpCo shall immediately distribute all distributable profits to its shareholders. In any event, if the Individual Shareholders receive any income, profit distribution or dividend from the OpCo, the Individual Shareholders shall promptly forgo the income, profit distribution or dividend and transfer or pay such income, profit distribution or dividend to Shanghai SenseTime Digital or any other entities designated by Shanghai SenseTime Digital to the extent permitted under applicable PRC laws;
- (g) without the prior written consent of Shanghai SenseTime Digital, the OpCo shall not, and the Individual Shareholders shall procure the OpCo not to, merge, partner, establish joint venture or consolidate with, acquire or invest in any person, or in any manner supplement, change or amend its constitutional documents, increase or decrease its registered capital, or change the structure of its registered capital in other manner, dissolve or liquidate the OpCo or change in the entity form of the OpCo;
- (h) to maintain the ownership by the OpCo of all of its assets, the OpCo shall, and the Individual Shareholders shall procure the OpCo to, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate claims or raise necessary and appropriate defenses against all claims;
- (i) without the prior written consent of Shanghai SenseTime Digital, the OpCo shall not, and the Individual Shareholders shall procure the OpCo not to, incur, inherit, guarantee or assume any debt, except for (a) debts incurred in the ordinary course of business other than payables incurred by way of a loan or (b) debts disclosed to Shanghai SenseTime Digital and agreed in writing by it; and
- (j) without the prior written consent of Shanghai SenseTime Digital, the OpCo shall not, and the Individual Shareholders shall procure the OpCo not to, provide any person with any loan, financial assistance, mortgage, pledge and other security in any form, or allow any mortgage or pledge by any third parties over the OpCo's equity interests or assets.

In addition, the Individual Shareholders have executed and passed to Shanghai SenseTime Digital undated transfer agreements in favour of Shanghai SenseTime Digital in relation to the Individual Shareholders' equity interests in the OpCo.

(iii) Power of Attorney

- Parties: (1) Shanghai SenseTime Digital;
- (2) the Individual Shareholders; and
- (3) the OpCo.
- Term: The Power of Attorney shall continue to remain effective until (a) terminated in writing by Shanghai SenseTime Digital or (b) Shanghai SenseTime Digital and/or its designee hold the entire equity interests or the entire assets of the OpCo and that Shanghai SenseTime Digital and/or its designee are able to conduct the business of the OpCo legally.
- Subject Matter: The Individual Shareholders irrevocably undertook that they will appoint Shanghai SenseTime Digital, any director(s) recommended by the board of directors of its overseas parent company (i.e. the Company) designated by Shanghai SenseTime Digital or his/her successors or liquidator replacing such person to act on their behalf on all matters concerning the OpCo and to exercise all of its rights as a registered shareholder of the OpCo in accordance with the PRC laws, the relevant New Contractual Arrangements, and the articles of association of the OpCo. These rights include but are not limited to:
- (a) the voting rights and shareholders' rights, which include but are not limited to dividend rights, the right to sell, transfer, pledge or dispose of all or part of the equity interests in the OpCo and participate in the distribution of profits of the OpCo or any other forms of distributable benefits and the right to propose, convene and attend shareholders' meetings;
 - (b) the right to designate, appoint, elect and remove the legal representative, directors (or executive director), supervisors, the chief executive officer (or general manager) and other senior management members of the OpCo, and the right to file a claim or take other legal actions against the directors, supervisors or senior management of the OpCo if their actions damage the interests of the OpCo or its shareholders;
 - (c) the right to sign documents related to the exercise of the shareholders' right to the equity interests in the OpCo and file documents with the relevant company registries;

- (d) the right to exercise voting rights upon the bankruptcy, liquidation, dissolution or termination of the OpCo on behalf of the Individual Shareholders;
- (e) the right to distribute the remaining assets after the bankruptcy, liquidation, dissolution or termination of the OpCo;
- (f) the right to transfer, pledge or dispose of in any other manner the OpCo's equity interests held by the Individual Shareholders;
- (g) the right to decide on the submission and registration of documents regarding the OpCo to governmental authorities; and
- (h) the right to exercise any shareholder's right to dispose of assets of the OpCo in accordance with law, including but not limited to the right to manage its assets-related matters, make use of its revenue, and obtain its assets.

(iv) Equity Pledge Agreement

- Parties: (1) Shanghai SenseTime Digital;
- (2) the Individual Shareholders; and
- (3) the OpCo.
- Term: The Equity Pledge Agreement takes effect on the date of signing until the expiration of the term of the equity pledge as described below. The equity pledge under the Equity Pledge Agreement will take effect upon registration with the relevant PRC authority in accordance with the PRC laws and regulations until each of the Exclusive Call Option Agreement, the Exclusive Business Cooperation Agreement and the Power of Attorney has been fulfilled, lapsed or terminated (whichever is the later).
- Subject Matter: The Individual Shareholders irrevocably and jointly and severally agreed to pledge all of their respective equity interests in the OpCo that they own, in the form of first priority pledge, to Shanghai SenseTime Digital as collateral security for any or all of their payments due to Shanghai SenseTime Digital, and to secure performance of their obligations, under the Exclusive Call Option Agreement, the Exclusive Business Cooperation Agreement and the Power of Attorney.

Should an event of default (as provided in the Equity Pledge Agreement) occur, unless it is successfully resolved to Shanghai SenseTime Digital's satisfaction within 30 days upon notice being given by Shanghai SenseTime Digital, Shanghai SenseTime Digital is entitled to all rights and power to the remedies for breach of contract, including but not limited to:

- (a) the right to demand that the OpCo immediately pay all outstanding payments due under the Exclusive Call Option Agreement, the Exclusive Business Cooperation Agreement and the Power of Attorney and all other amounts due and payable to Shanghai SenseTime Digital, and/or repay any loan; and/or
- (b) the right to dispose of the rights under the pledge in accordance with the Equity Pledge Agreement and/or dispose of the pledged equity in such ways as permitted under the PRC laws, including but not limited to the right to have priority in compensation from the proceeds or of the auction or disposal of all or part of the equity interests in the OpCo or to foreclose such equity interest.

In addition to the above, each of the Individual Shareholders has provided an undertaking in respect of matters described in the paragraphs headed "Arrangements to address potential conflicts of interest" and "Unwinding the structure under the New Contractual Arrangements" below.

Each of the spouses of the Individual Shareholders had also respectively executed an irrevocable undertaking in respect of the OpCo, whereby each of them expressly and irrevocably acknowledged and undertaken that amongst others, (i) any equity interests in the OpCo, as held by the respective Individual Shareholders, will not be claimed as their communal properties; (ii) she will not have any claim on the interests of the OpCo; (iii) she has never participated and will not participate in the operation or management of the OpCo.

Dispute resolution, succession, liquidation and other related matters under the New Contractual Arrangements

Dispute resolution

The New Contractual Arrangements stipulate that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such dispute within 30 days after a party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai, and the language for the arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings becomes effective.

The New Contractual Arrangements also provide that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interests of the OpCo, compulsory relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OpCo; (ii) a court of competent jurisdiction may grant interim relief to a party when requested for the purpose of preserving the assets and property or enforcement measures, subject to the requirements under the PRC laws; and (iii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and such other jurisdictions which are the place of domicile of the OpCo or in which the principal assets of the OpCo are located shall have jurisdiction over the foregoing matters.

Succession

The provisions set out in the New Contractual Arrangements are also binding on the successors of the Individual Shareholders, as if the successors were signing parties to the New Contractual Arrangements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the New Contractual Arrangements. In case of a breach, Shanghai SenseTime Digital can enforce its rights against the successors. Pursuant to the New Contractual Arrangements, any inheritor of the Individual Shareholders shall inherit any and all rights and obligations of the Individual Shareholders under the New Contractual Arrangements as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect their exercise of rights in the equity interest in the OpCo, as if the inheritor was a signing party to such New Contractual Arrangements.

Death, bankruptcy and divorce

Appropriate provisions have been incorporated in the New Contractual Arrangements to protect the Group's interests in the event of death, bankruptcy or divorce of the Individual Shareholders.

In addition to the terms as described in the paragraph "Succession" above, according to the terms of the New Contractual Arrangements, each of the Individual Shareholders has undertaken, in the event of death, incapacitation, marriage, divorce, insolvency or any other events that could possibly affect his/her holding or exercise of the rights and obligations in the equity interest of OpCo, his/her successor shall be deemed to be a party to the New Contractual Arrangements, who would assume all rights and obligations under the New Contractual Arrangements.

The spouses of the Individual Shareholders have also executed undertakings in this regard as described above.

Arrangements to address potential conflicts of interest

Each of the Individual Shareholders has undertaken that, (a) except with the written consent of Shanghai SenseTime Digital, in any circumstances, they shall not, directly or indirectly, actively or passively, acquire, take part in, participate or hold any business or interest in business which competes or may compete with the OpCo or its affiliated companies; (b) none of their acts or omission will lead to conflict of interests between the Individual Shareholders and Shanghai SenseTime Digital (including but not limited to its shareholders); and (c) the Individual Shareholders shall take all actions as instructed by Shanghai SenseTime Digital to eliminate such conflict of interests, provided that such actions shall not lead to a breach of the applicable PRC laws and regulations.

In addition, the Individual Shareholders have granted the Power of Attorney in favour of Shanghai SenseTime Digital as described above.

Liquidation

Pursuant to the Exclusive Call Option Agreement, in the event of a mandatory dissolution or liquidation of the OpCo required by the PRC laws, the OpCo shall sell all of its assets to the extent permitted by PRC laws to Shanghai SenseTime Digital and/or the entities designated by it, at the lowest selling price permitted by applicable PRC laws. Any obligation for Shanghai SenseTime Digital and/or the entities designated by it to pay the OpCo as a result of such transaction shall be waived by the OpCo and any profits arising from the above transaction shall be paid to Shanghai SenseTime Digital and/or its designee.

Unwinding the structure under the New Contractual Arrangements

The Company will unwind the structure created as a result of the New Contractual Arrangements as soon as the PRC laws allow the relevant businesses carried out by the OpCo to be operated without such structure, and Shanghai SenseTime Digital may acquire the equity interest in the OpCo held by the Individual Shareholders and/or the assets of the OpCo to the extent as permitted by the then applicable PRC laws. Each of the Individual Shareholders has undertaken that, (a) if the PRC laws allow the relevant businesses carried out by the OpCo to be operated without the New Contractual Arrangements structure, each of the Individual Shareholders will, upon request by Shanghai SenseTime Digital, transfer all the equity interests in the OpCo held by such Individual Shareholders to Shanghai SenseTime Digital and/or its designee, and will terminate the New Contractual Arrangements; and (b) in the event Shanghai SenseTime Digital and/or its designee exercises the right under the Exclusive Call Option Agreement to acquire the equity interest in the OpCo held by the Individual Shareholders and/or the assets of the OpCo to unwind the structure under the New Contractual Arrangements, the Individual Shareholders shall return all the consideration received to Shanghai SenseTime Digital and/or its designee.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW CONTRACTUAL ARRANGEMENTS

The Group has strived to develop its core capabilities and general infrastructure required for the development of its cutting-edge AI technology since its inception. In particular, the Group has been building and developing its AIDC operations which facilitates the Group's provision of AI-as-a-service to different industries, scientific research institutions and city managers, and in turn improve AI productivity and penetration rate. Against such background, the Group therefore proposes to expand and develop its new AIDC operations through the OpCo.

As discussed under the section headed "INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Background and reasons for the use of the New Contractual Arrangements" in this announcement, the AIDC operations are subject to foreign ownership restriction imposed by the relevant PRC laws and regulations. As at the date of this announcement, the Company also carries on its AIDC operations in the PRC through other consolidated affiliated entities, namely Shanghai Qianlun and Shanghai Shangchou. However, the Group believes that through establishing the New Contractual Arrangements (instead of setting up new subsidiary under the Relevant Contractual Arrangements) to carry out the new AIDC operations of the Group in the PRC, the Group will be better able to ring-fence any potential liabilities which may arise in the ordinary course of business through operation of each AIDC, which will in turn facilitate the Group to better protect its assets held through the OpCo. The Company therefore proposes to further develop its new AIDC operations through the OpCo. The Company will adjust or unwind (as the case may be) the New Contractual Arrangements as soon as practicable in respect of the operation of the AIDC to the extent permissible and will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations which allow the AIDC operations to be conducted and operated by the subsidiaries of the Company without such arrangements in place.

In light of the above, the Board believes that the entering into of the New Contractual Arrangements are in the interests of the Company and its Shareholders as a whole, and are fundamental to the Group's legal structure, business and operation of AIDC in the PRC.

COMPLIANCE OF THE NEW CONTRACTUAL ARRANGEMENTS WITH THE APPLICABLE PRC LAWS, RULES AND REGULATIONS

The PRC Legal Adviser, after taking all possible actions or steps to enable it to reach its legal conclusions, is of the following legal opinions:

- (a) each of Shanghai SenseTime Digital and the OpCo has obtained all necessary corporate approvals and authorizations to execute and perform the New Contractual Arrangements;
- (b) the New Contractual Arrangements do not violate the mandatory provisions in PRC laws, rules and regulations applicable to Shanghai SenseTime Digital and the OpCo and their respective businesses. The New Contractual Arrangements do not violate the Civil Code of the PRC (《中華人民共和國民法典》) or any mandatory provisions of other applicable PRC laws, rules and regulations, the violation of which would render the New Contractual Arrangements becoming void (including but not limited to being deemed as "concealing illegal intentions with a lawful form");

- (c) the New Contractual Arrangements do not violate the articles of association of Shanghai SenseTime Digital or the OpCo;
- (d) the execution and performance of the New Contractual Arrangements do not require any approval or authorization from or filing with any third parties (including the PRC governmental authorities), except that:
 - (i) the exercise of the option by Shanghai SenseTime Digital or its designee under the Exclusive Call Option Agreement to acquire all or part of the equity interests and/or the assets of the OpCo is subject to the approvals of and/or registrations with the PRC regulatory authorities respectively (subject to compliance with the then prevailing applicable PRC laws);
 - (ii) the share pledge contemplated under the Equity Pledge Agreement is subject to the registration with local administration bureau for market regulation; and
 - (iii) the arbitration rulings/interim remedies provided under the dispute resolution provisions of the New Contractual Arrangements shall be subject to the PRC courts' recognition; and
- (e) the New Contractual Arrangements are valid, legal, binding and enforceable against all the parties thereto under the PRC laws, except for the following provisions regarding dispute resolution:
 - (i) the New Contractual Arrangements provide that any dispute shall be submitted to China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai. It also provides that the arbitrator may award interim remedies over the shares or assets of the OpCo or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OpCo; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and mainland China (being the place of incorporation of the OpCo) also have jurisdiction for the grant and/or enforcement of the interim remedies against the shares or properties of the OpCo. However, the PRC Legal Adviser has advised that the arbitral tribunal may have no power to grant such interim remedies or relief and the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable under the PRC laws.

As at the date of this announcement, the OpCo has not encountered any interference or encumbrance from any governing bodies in operating its business.

THE BOARD'S VIEW ON THE NEW CONTRACTUAL ARRANGEMENTS

Based on the above, the Board (including the independent non-executive Directors) is of the view that:

- (i) the New Contractual Arrangements are narrowly tailored to achieve the Company's business purpose and has minimized the potential conflict with relevant PRC laws and regulations;

- (ii) the New Contractual Arrangements enable Shanghai SenseTime Digital to gain and exercise control over the OpCo and to be entitled to the economic interests and benefits of the OpCo;
- (iii) as advised by the PRC Legal Adviser, each of the agreements under the New Contractual Arrangements is legally binding and enforceable against all parties to each of the agreements under the PRC laws, except for certain special circumstances. Please refer to the section headed “COMPLIANCE OF THE NEW CONTRACTUAL ARRANGEMENTS WITH THE APPLICABLE PRC LAWS, RULES AND REGULATIONS” in this announcement for further details; and
- (iv) the New Contractual Arrangements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole.

As none of the Directors have a material interest in the transactions contemplated under the New Contractual Arrangements, none of the Directors have abstained from voting on the relevant Board resolutions.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

The New Contractual Arrangements contain certain provisions in order for Shanghai SenseTime Digital to exercise effective control over and to safeguard the assets of the OpCo.

In addition, the Group will adopt the following measures to ensure the effective operation of the Group with the implementation of the New Contractual Arrangements and the compliance with the New Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the New Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (b) the Board will review the overall performance of and compliance with the New Contractual Arrangements at least once a year;
- (c) the Company will disclose the overall performance and compliance with the New Contractual Arrangements in the annual reports; and
- (d) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the New Contractual Arrangements, review the legal compliance of Shanghai SenseTime Digital and the OpCo to deal with specific issues or matters arising from the New Contractual Arrangements.

RISK AND LIMITATIONS RELATING TO THE NEW CONTRACTUAL ARRANGEMENTS

There is no assurance that the New Contractual Arrangements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the New Contractual Arrangements do not comply with applicable regulations.

Despite there is currently no indication that the New Contractual Arrangements will be interfered or objected to by any PRC regulatory authorities, there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the New Contractual Arrangements comply with the current PRC laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the New Contractual Arrangements. If the New Contractual Arrangements are found to be in violation of any PRC laws or regulations or are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant PRC governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoking the business and operating licenses of Shanghai SenseTime Digital and/or the OpCo;
- restricting or prohibiting transactions between Shanghai SenseTime Digital and the OpCo;
- imposing fine or other requirements which the Company, Shanghai SenseTime Digital and the OpCo may find it difficult or impossible to comply; and
- requesting the Company, Shanghai SenseTime Digital and the OpCo to restructure the relevant ownership structure or operations.

Development of Foreign Investment Law in the PRC

On March 15, 2019, the National People's Congress approved the Foreign Investment Law (《中華人民共和國外商投資法》), which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law (《中華人民共和國外資企業法》), together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to unify the corporate legal requirements for both foreign and domestic investments and by way of having the Negative List for Foreign Investment. The Negative List for Foreign Investment, which shall be issued and amended by or upon approval by the Ministry of Commerce of the PRC and National Development and Reform Commission of the PRC from time to time, refers to special administrative measures for access of foreign investment in specific fields in PRC. A foreign investor shall not invest in any field prohibited from foreign investment under the Negative List for Foreign Investment.

On December 26, 2019, the State Council of the PRC issued the Implementation Regulations for the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法實施條例》) (the “**Implementation Regulations**”), which became effective on January 1, 2020. Pursuant to the Implementation Regulations, in the event of any discrepancy between the Foreign Investment Law and the Implementation Regulations and relevant requirements for foreign investment promulgated prior to January 1, 2020, the Foreign Investment Law and the Implementation Regulations shall prevail. A foreign investor shall meet the investment conditions stipulated under the Negative List for Foreign Investment for any restricted fields under the Negative List. For fields not mentioned in the Negative List for Foreign Investment, domestic and foreign investments shall be treated equally. However, while the Foreign Investment Law and the Implementation Regulations stipulate different forms of investment as foreign investment, it does not explicitly stipulate the structure of the New Contractual Arrangements as a form of foreign investments, neither does it explicitly prohibit or restrict a foreign investor to rely on the structure of the New Contractual Arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Instead, it includes a catch-all provision to the definition of foreign investment so that foreign investment, by its definition, includes “foreign investor makes investment in any other way stipulated under laws or administrative regulations or provisions of the State Council” without elaboration on the meaning of “other way”. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council of the PRC to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, the Group may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If the Company fails to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, its current corporate structure, corporate governance and business operations could be materially and adversely affected, and the Company could be subject to severe penalties or be forced to relinquish its interests in the OpCo's operations.

The Potential Impact of the Foreign Investment Law on the OpCo

It is possible that contractual arrangements (including the New Contractual Arrangements) will be regarded as foreign investment under the aforesaid limb of “foreign investor makes investment in any other way stipulated under laws or administrative regulations or provisions of the State Council” or the State Council or other authorities may prescribe new laws, administration regulations or provisions or exercise to provide for the same or exercise its broad discretion of interpretation to the same effect. Whether the contractual arrangements will be found or deemed to be in violation of the foreign investment access requirements and how the contractual arrangements will be handled in such scenarios are uncertain. Therefore, it may be possible that the New Contractual Arrangements and the OpCo's business will be adversely affected in the future due to the development and changes in PRC laws and regulations.

Measures adopted by the OpCo to mitigate against any potential risk arising from the Foreign Investment Law

The Foreign Investment Law does not contain a concrete guidance to deal with the contractual arrangements. As such, the Board will monitor the implementation of the Foreign Investment Law and discuss with the PRC Legal Adviser on a regular basis in order to assess any possible impact arising from the implementation of the Foreign Investment Law on the New Contractual Arrangements and the business operation of the OpCo. In case there would be material impact on the OpCo or the business of the OpCo arising from any material changes in the Foreign Investment Law, the Company will timely publish announcements in relation to (i) any such amendments to or interpretations of the Foreign Investment Law and the specific measures (if any) taken by the Group to fully comply with the Foreign Investment Law as supported by appropriate PRC legal opinion; and (ii) any material impact of the Foreign Investment Law on the operations and financial position of the OpCo and the Group.

The New Contractual Arrangements may not be as effective as direct ownership in providing control over the OpCo

Shanghai SenseTime Digital will rely on the New Contractual Arrangements to operate the business of the OpCo. Such contractual arrangements may not be as effective in providing Shanghai SenseTime Digital with control over the OpCo as direct ownership. If Shanghai SenseTime Digital has direct ownership of the OpCo, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the OpCo, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the New Contractual Arrangements, the Group will only rely on Shanghai SenseTime Digital's contractual rights and the performance by the Individual Shareholders of their obligations under the New Contractual Arrangements to exercise control over the OpCo. Therefore, the New Contractual Arrangements may not be as effective in ensuring Shanghai SenseTime Digital's control over the OpCo as direct ownership would be. In addition, if the Individual Shareholders or the OpCo fail to perform their respective obligations under the New Contractual Arrangements or otherwise have disputes with Shanghai SenseTime Digital, Shanghai SenseTime Digital may have to initiate arbitration or other legal proceedings and rely on legal remedies under PRC laws which may be limited and involve significant uncertainty. There can be no assurance that the outcome will be in Shanghai SenseTime Digital's favour and it may adversely affect Shanghai SenseTime Digital's ability to control the OpCo.

The Individual Shareholders may potentially have a conflict of interests with the Group

The Group's control over the OpCo is based on the arrangements under the New Contractual Arrangements. Therefore, conflict of interests of the Individual Shareholders will adversely affect the interests of the Company. However, under the New Contractual Arrangements, the Individual Shareholders will irrevocably appoint any person designated by Shanghai SenseTime Digital (including its liquidator, if any) as their representative to exercise the voting rights of the shareholders of the OpCo. Therefore, it is unlikely that there will be potential conflict of interests between the Company and such Individual Shareholders. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Company will consider removing and replacing the registered shareholders of the OpCo.

The New Contractual Arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

Under the laws and regulations of the PRC, arrangements and transactions may be subject to audit and/or challenge by the PRC tax authorities. The Group may face material adverse tax consequences if the PRC tax authorities determine that the New Contractual Arrangements does not represent arm's length negotiations between the parties and they may adjust income and expenses of Shanghai SenseTime Digital and/or the OpCo for PRC tax purposes, which could result in higher tax liabilities on Shanghai SenseTime Digital and/or the OpCo. The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of Shanghai SenseTime Digital and/or the OpCo increase significantly or if they are required to pay interest and other penalties on late payments.

Economic risks the Group bears as the primary beneficiary of the OpCo, financial support to the OpCo and potential exposure of the Group to losses

As the primary beneficiary of the OpCo, the Group will share both profit and loss of the OpCo and bear economic risks which may arise from difficulties in the operation of the OpCo's businesses. The Group may have to provide financial support in the event of financial difficulty of the OpCo. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the OpCo and the need to provide financial support to it. In any event, since the Group conducts its AIDC operations through the OpCo, its financial results would be reflected in the Group's consolidated financial statements and the Group's consolidated financial position such as the consolidated earnings and profits may be adversely affected.

Limitations in acquiring ownership in the equity interest of the OpCo

In case Shanghai SenseTime Digital exercises its option to acquire all or part of the equity interest in the OpCo under the Exclusive Call Option Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under applicable PRC laws. In addition, the aforementioned acquisitions may be subject to the permissible minimum price (such as an appraised value for the equity interest in the OpCo) or other limitations as imposed by the applicable PRC laws. Further, a substantial amount of other costs (if any), and time may be involved in acquiring and transferring the ownership of the OpCo, which may have a material adverse impact on Shanghai SenseTime Digital and/or the OpCo's businesses, prospects and profitability.

Certain terms of the New Contractual Arrangements may not be enforceable under the PRC laws

The New Contractual Arrangements provide that the arbitration tribunal of the PRC may award remedies over the equity interest or assets of the OpCo or injunctive relief (such as injunctive relief for the conduct of business or to compel the transfer of assets) or order the winding up of the OpCo. The New Contractual Arrangements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary

injunctive relief or other temporary remedies from the courts in Hong Kong, the Cayman Islands, the PRC, and the location where the OpCo's principal assets are located. However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitral tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OpCo. In addition, even though the New Contractual Arrangements provide that the arbitral tribunal and overseas courts (e.g. courts in Hong Kong and the Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that the OpCo or any of the Individual Shareholders breaches the terms of the New Contractual Arrangements, the OpCo may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OpCo could be materially and adversely affected.

The Company does not have any insurance which covers the risks relating to the New Contractual Arrangements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the New Contractual Arrangements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the New Contractual Arrangements in the future, such as those affecting the enforceability of the New Contractual Arrangements and the relevant agreements for the transactions contemplated thereunder and the operation of New Contractual Arrangements, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the New Contractual Arrangements.

CONSOLIDATION OF THE FINANCIAL RESULTS OF THE OPCO

The Company has discussed with its auditors regarding the consolidation of the financial results of the OpCo under the prevailing accounting principles. Based on the New Contractual Arrangements and the legal opinion provided by the Company's PRC legal advisor, the Company concluded that upon the entering into of the New Contractual Arrangements, it is appropriate to consolidate the financial results of the OpCo into the consolidated financial statements of the Group under the prevailing accounting principles, and the OpCo will be treated as a controlled structured entity of the Company.

INFORMATION ON THE OPCO, THE INDIVIDUAL SHAREHOLDERS, SHANGHAI SENSITIVE DIGITAL AND THE GROUP

The OpCo

The OpCo is a company established under the laws of the PRC with limited liability on December 21, 2023. As at the date of this announcement, (a) the OpCo has not commenced any business operations and (b) the OpCo is held as to 50% by each of Mr. Yang Fan and Mr. Ma Kun. The OpCo will be principally engaged in the operation of AIDC in the PRC.

The Individual Shareholders

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

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

Shanghai SenseTime Digital

Shanghai SenseTime Digital is incorporated as a wholly foreign owned enterprise under the laws of the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company. Shanghai SenseTime Digital is principally engaged in development and sale of software and provision of related services in the PRC.

The Group

The Group is a leading AI software company principally engaged in the research and development of AI technology, sales and development of AI software and AI software-embedded hardware, and related services.

IMPLICATIONS UNDER THE LISTING RULES

At the time of the Listing, the Company sought, and the Stock Exchange granted, the IPO Waiver for the Listing in connection with the continuing connected transactions of the Group in the form of the Relevant Contractual Arrangements. The IPO Waiver is subject to certain conditions including, among others, on the basis that the Relevant Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Shanghai Qianlun and Shanghai SenseTime Technology Development (each being a consolidated affiliated entity of the Group), on the other hand, that the framework may be renewed and/or reproduced (a) upon the expiry of the existing arrangements or (b) in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, and on substantially the same terms and conditions as the Relevant Contractual Arrangements.

Each of the Individual Shareholders is a connected person of the Company at subsidiary level by virtue of being a substantial shareholder and (in respect of Mr. Yang Fan) directors of Shanghai Qianlun and Shanghai Shangchou, each a consolidated affiliated entity of the Group. As such, the New Contractual Arrangements and the transactions contemplated thereunder constitute continuing connected transactions under Chapter 14A of the Listing Rules.

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

OPINION OF THE INDEPENDENT FINANCIAL ADVISER

According to Rule 14A.52 of the Listing Rules, the term of the New Contractual Arrangements must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. Taking into account the terms of the New Contractual Arrangements, Red Sun Capital has been appointed as the independent financial adviser of the Company to explain why the New Contractual Arrangements require a longer period and to confirm that it is normal business practice for agreements of such type to be of such duration.

Red Sun Capital has taken into account the following factors when formulating its independent opinion pursuant to Rule 14A.52 of the Listing Rules:

- (i) the Group is a leading AI software company principally engaged in the research and development of AI technology, sales and development of AI software and AI software-embedded hardware, and related services. Through the New Contractual Arrangements, Shanghai SenseTime Digital, being a wholly foreign owned enterprise incorporated under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company, will have effective control over the finance and operation of the OpCo, and will enjoy the economic interest and benefits generated by the OpCo. The OpCo, held as to 50% by each of Mr. Yang Fan and Mr. Ma Kun (i.e. the Individual Shareholders), has not commenced any business operations as at the date of this announcement, and will be principally engaged in the operation of AIDC in the PRC. Details of the background of the Individual Shareholders, Shanghai SenseTime Digital and the OpCo are set out under paragraph headed "INFORMATION ON THE OPCO, THE INDIVIDUAL SHAREHOLDERS, SHANGHAI SENSETIME DIGITAL AND THE GROUP" in this announcement;

- (ii) the PRC Legal Adviser advised the Company that the AIDC operations intended to be carried out by the OpCo is regarded as the business of internet data center, which falls within the scope of “value-added telecommunication services” under the Telecommunications Regulations (《中華人民共和國電信條例》) and Telecommunications Business Catalog (《電信業務分類目錄》) of the PRC published by the MIIT. The operation of such business would therefore require the Value-added Telecommunications Business Operation Permit with Internet Data Center Services (i.e. the IDC License) under the PRC laws, and the OpCo has submitted an application for the IDC License, which is subject to foreign ownership restrictions under the PRC laws and regulations.

Given that a foreign investor is restricted from holding equity interest in an entity which holds IDC License under the PRC laws and regulations, the Company is unable to directly or indirectly hold equity interest in a PRC company holding IDC License. In order to comply with the relevant PRC laws and regulations while achieving the commercial intention of the parties, the Group entered into the New Contractual Arrangements, pursuant to which Shanghai SenseTime Digital will have effective control over the finance and operations of the OpCo, and will enjoy the entire economic interests and benefits generated by the OpCo despite the lack of registered equity ownership.

Based on the New Contractual Arrangements and the legal opinion provided by the PRC Legal Adviser, the Company concluded that upon the entering into of the New Contractual Arrangements, it is appropriate to consolidate the financial results of the OpCo into the consolidated financial statements of the Group under the prevailing accounting principles, and the OpCo will be treated as a controlled structured entity of the Company;

- (iii) the Independent Financial Adviser noted from its discussion with the management of the Company (the “**Management**”) and the information as set out under paragraph headed “REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW CONTRACTUAL ARRANGEMENTS” in this announcement that the AIDC operations are subject to foreign ownership restriction imposed by the relevant PRC laws and regulations. While the Company also carries on its AIDC operations in the PRC through other consolidated affiliated entities, the Group believes that through establishing the New Contractual Arrangements, instead of setting up new subsidiary under the Relevant Contractual Arrangements, to carry out the new AIDC operations of the Group in the PRC, the Group will be better able to ring-fence any potential liabilities which may arise in the ordinary course of business through operation of each AIDC, which will in turn facilitate the Group to better protect its assets held through the OpCo. The Company therefore proposes to further develop its new AIDC operations through the OpCo. The Company will adjust or unwind (as the case may be) the New Contractual Arrangements as soon as practicable in respect of the operation of the AIDC to the extent permissible and will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations which allow the AIDC operations to be conducted and operated by the subsidiaries without such arrangements in place. In light of the above, the Independent Financial Adviser concur with the Directors’ view that the entering into of the New Contractual Arrangements for the purpose of furtherance of the Group’s AIDC operations are in the interests of the Company and its Shareholders as a whole;

- (iv) based on the Independent Financial Adviser's review of the Group's annual report for the year ended December 31, 2022 and interim report for the six months ended June 30, 2023 as well as its discussion with the Management, the Independent Financial Adviser noted that furtherance of the AIDC operations is important for the development of the Group's artificial intelligence and related product offerings across its four major business segments, namely, Smart Business, Smart Life, Smart Auto and Smart City;
- (v) having considered the reasons for and the purpose of the New Contractual Arrangements, strict compliance with the three-year term requirement in respect of the term under the New Contractual Arrangements is considered to be impractical as it is understood that the AIDC operations are subject to foreign ownership restriction imposed by the relevant PRC laws and regulations. Without the New Contractual Arrangements, which are narrowly tailored to achieve the Company's business purpose and minimise the potential conflict with relevant PRC laws and regulations, the Group would not be able to own and operate the relevant AIDC operations under the relevant existing PRC laws and regulations.

Under the New Contractual Arrangements, Shanghai SenseTime Digital would be able to exercise control over the OpCo and be entitled to the economic interests and benefits of the OpCo. In addition, the Company will adjust or unwind (as the case may be) the New Contractual Arrangements as soon as practicable in the event that the PRC laws allow the relevant businesses carried out by the OpCo to be operated without such structure, and Shanghai SenseTime Digital may acquire the equity interest in the OpCo held by the Individual Shareholders and/or the assets of the OpCo to the extent as permitted by the then applicable PRC laws. On this basis, it would be commercially impractical for the parties to agree to a term of three years or less, and that a term of three years or less on the New Contractual Arrangements will be unduly burdensome and impracticable given that the New Contractual Arrangements are intended to be long term arrangements; and

- (vi) the Independent Financial Adviser has conducted market research and analysis on, among others, announcements and publications issued by other companies listed on the Main Board of the Stock Exchange ("**HK Listed Companies**"), the Independent Financial Adviser has identified not less than 12 market transactions in relation to contractual arrangements, which is also referred to as variable interest entity business structures, entered into for investment(s) made by HK Listed Companies (including its subsidiaries) that are subject to foreign ownership restrictions under the PRC laws and regulations. These identified market transactions conducted by member(s) of listed groups were entered into on a date falling on or after January 1, 2022 and up to the date of this announcement (the "**Market Precedents**"). The Independent Financial Adviser considered the Market Precedents to be an appropriate market reference for the purpose of its analysis, and noted that the term of the relevant arrangements and/or agreements in connection with the Market Precedents are (a) with no specified end date or with an indefinite term, whereby such arrangements/agreements would remain in force until terminated; or (b) with an initial term ranged from three to twenty years and be automatically renewed upon the expiry of the initial term unless or until terminated.

On this basis, the term of the New Contractual Arrangements, in the case of the Exclusive Business Cooperation Agreement and the Exclusive Call Option Agreement being for an initial term of ten years, and Shanghai SenseTime Digital has the right to extend the term until Shanghai SenseTime Digital and/or its designee hold the entire equity interests and/or the entire assets of the OpCo and that Shanghai SenseTime Digital and its subsidiaries are able to conduct the business of the OpCo legally, and if Shanghai SenseTime Digital fails to confirm the extension of the term at the expiration of the term of the subject agreements, the term of the subject agreement shall be automatically extended until Shanghai SenseTime Digital serves a notice stipulating the length of the extension of the term, are considered to be in line with normal business practice for arrangements and/or agreements of similar type.

Having considered the factors as set out above and based on its analysis, Red Sun Capital is of the view that the term of the New Contractual Arrangements of more than three years is reasonable and it is normal business practice for agreements of this type to be of such duration.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expression shall have the meanings set out below:

“AI”	artificial intelligence
“Board”	the board of Directors of the Company
“CEPA”	has the meaning given to it in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Background and reasons for the use of the New Contractual Arrangements”
“Class A Share(s)”	the class A ordinary shares of the Company with a par value of US\$0.000000025 each
“Class B Share(s)”	the class B ordinary shares of the Company with a par value of US\$0.000000025 each
“Company”	SenseTime Group Inc. (商汤集团股份有限公司), an exempted company incorporated under the laws of Cayman Islands with limited liability, the issued Class B Shares of which are listed on the Main Board of the Stock Exchange (stock codes: 0020 (HKD Counter) and 80020 (RMB Counter))
“Director(s)”	the director(s) of the Company

“Encouraging Catalog (2022)”	has the meaning given to it in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Background and reasons for the use of the New Contractual Arrangements”
“Equity Pledge Agreement”	the equity pledge agreement entered into between Shanghai SenseTime Digital, the Individual Shareholders and the OpCo, details of which are set out in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Details of the New Contractual Arrangements”
“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement entered into between Shanghai SenseTime Digital and the OpCo, details of which are set out in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Details of the New Contractual Arrangements”
“Exclusive Call Option Agreement”	the exclusive call option agreement entered into between Shanghai SenseTime Digital, the Individual Shareholders and the OpCo, details of which are set out in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Details of the New Contractual Arrangements”
“Group”	the Company and its subsidiaries and consolidated affiliated entities from time to time
“IDC License”	the Value-added Telecommunications Business Operation Permit with Internet Data Center Services
“Implementation Regulations”	has the meaning given to it in the paragraph headed “RISK AND LIMITATIONS RELATING TO THE NEW CONTRACTUAL ARRANGEMENTS – Development of Foreign Investment Law in the PRC”
“Independent Financial Adviser” or “Red Sun Capital”	Red Sun Capital Limited, a corporation licensed by the Securities and Futures Commission to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, being the independent financial adviser engaged by the Company to provide independent advice in respect of the New Contractual Arrangements pursuant to the requirement under Rule 14A.52 of Listing Rules

“Individual Shareholders”	collectively, Mr. Yang Fan and Mr. Ma Kun
“IPO Waiver”	the waiver granted by the Stock Exchange to the Company from strict compliance with (i) the announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Relevant Contractual Arrangements, (ii) the requirement of setting an annual cap for the transactions under the Relevant Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of fixing the term of the Relevant Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Class B Shares are listed on the Stock Exchange subject to certain conditions, details of which are further set out in the section headed “Connected Transactions” in the Prospectus
“Listing”	the listing of the Class B Shares on the Main Board of the Stock Exchange on December 30, 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MIIT”	has the meaning given to it in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Background and reasons for the use of the New Contractual Arrangements”
“Negative List”	has the meaning given to it in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Background and reasons for the use of the New Contractual Arrangements”
“New Contractual Arrangements”	collectively, the Exclusive Business Cooperation Agreement, the Exclusive Call Option Agreement, the Power of Attorney, the Equity Pledge Agreement, the undertakings executed by the Individual Shareholders in respect of the OpCo and the undertakings executed by the spouses of the Individual Shareholders in respect of the OpCo
“OpCo”	Shanghai Yushu Technology Co., Ltd.* (上海禹紓科技有限公司), a company incorporated under the laws of the PRC with limited liability

“Power of Attorney”	the power of attorney entered into between Shanghai SenseTime Digital, the Individual Shareholders and the OpCo, details of which are set out in the paragraph headed “INFORMATION ON THE NEW CONTRACTUAL ARRANGEMENTS – Details of the New Contractual Arrangements”
“PRC”	the People’s Republic of China
“PRC Legal Adviser”	King & Wood Mallesons, the legal adviser to the Company as to PRC laws
“Prospectus”	the prospectus of the Company dated December 7, 2021, as amended and supplemented by the supplemental prospectus of Company dated December 20, 2021
“Relevant Contractual Arrangements”	the series of contractual arrangements entered into by, amongst others, Shanghai Yuqin, Shanghai Qianlun and Shanghai SenseTime Technology Development respectively
“Shanghai Qianlun”	Shanghai Qianlun Technology Co., Ltd. (上海阡倫科技有限公司), a company incorporated under the laws of the PRC with limited liability on September 17, 2020, a consolidated affiliated entity of the Group
“Shanghai SenseTime Digital”	Shanghai SenseTime Digital Technology Co., Ltd.* (上海商湯數字科技有限公司), a wholly foreign owned enterprise incorporated under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Shanghai SenseTime Technology Development”	Shanghai SenseTime Technology Development Co., Ltd. (上海商湯科技開發有限公司), a company incorporated under the laws of the PRC with limited liability on January 16, 2020, a consolidated affiliated entity of the Group
“Shanghai Shangchou”	Shanghai Shangchou Technology Co., Ltd.* (上海商籌科技有限公司), a company incorporated under the laws of the PRC with limited liability on September 13, 2022, a consolidated affiliated entity of the Group
“Shanghai Yuqin”	Shanghai Yuqin Information Technology Co., Ltd. (上海煜芩信息科技有限公司), a company incorporated under the laws of the PRC with limited liability on March 20, 2019, an indirect wholly-owned subsidiary of the Company

“Shareholder(s)” holders of Class A Shares and/or Class B Shares

“Stock Exchange” The Stock Exchange of Hong Kong Limited

* *for identification purposes only*

By order of the Board
SenseTime Group Inc.
商汤集团股份有限公司
Dr. Xu Li
Executive Chairman
Chief Executive Officer

Hong Kong, January 29, 2024

As at the date of this announcement, the executive Directors are Dr. Xu Li, Dr. Wang Xiaogang and Mr. Xu Bing; the non-executive Director is Ms. Fan Yuanyuan; and the independent non-executive Directors are Prof. Xue Lan, Mr. Lyn Frank Yee Chon and Mr. Li Wei.