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Beijing Fourth Paradigm Technology Co., Ltd.
北京第四範式智能技術股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6682)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

The Board hereby announces the consolidated annual results of the Group for the year ended December 31, 2023, together with the comparative figures for the year ended December 31, 2022. The consolidated annual results of the Group for the Reporting Period have been audited by the auditor of the Company and reviewed by the Audit Committee.

FINANCIAL HIGHLIGHTS

	Year ended December 31,				YoY change
	2023	2022	2023	2022	
	Amount (RMB'000)	Percentage of total revenue	Amount (RMB'000)	Percentage of total revenue	
Revenue	4,204,142	100.0	3,082,637	100.0	36.4%
Gross profit	1,979,548	47.1	1,486,646	48.2	33.2%
Loss for the year	(920,569)	(21.9)	(1,653,421)	(53.6)	-44.3%
Non-IFRS measures:					
Adjusted net loss	(415,459)	(9.9)	(504,335)	(16.4)	-17.6%

BUSINESS REVIEW AND OUTLOOK

In 2023, amidst a volatile global economic environment, we steadfastly supported enterprise customers in achieving digital and intelligent transformation through technological innovation. This support enabled us to achieve stable business growth and contributed to our sustainable development.

In 2023, the Company's total revenue amounted to RMB4,204 million, representing a year-on-year growth of 36.4%. Its gross profit amounted to RMB1,980 million, representing a year-on-year increase of 33.2% and a gross profit margin of 47.1%. We emphasized technology investment. R&D expenses exceeded RMB1.7 billion in 2023, with a R&D expense ratio of more than 40%. The Company has set a clear goal of profitability. Full-year adjusted net loss amounted to RMB415 million, a year-on-year decline of RMB88.88 million or 17.6%. We have reduced losses year-on-year since 2021.

During the Reporting Period, we continued to expand our customer base, significantly increased our industry influence, and contributed value to many industries with our AI technology. We are deeply engaged in the finance, energy and power, telecommunications, and transportation and other industries, and continue to proactively expand our presence in strategic fields, such as manufacturing, healthcare and retail. In 2023, the total number of users increased to 445, with 139 lighthouse users¹, representing a year-on-year growth of 33.7%. We insist on creating value for our customers. The average revenue from our lighthouse users was RMB18.38 million, and their NDER (net dollar expansion rate)² was 115% in 2023.

Currently, we have established three major business segments: 4Paradigm Sage AI Platform (**4ParadigmSage**), SHIFT Intelligent Solutions (**4Paradigm SHIFT**), and 4Paradigm SageGPT AIGS Services (**4Paradigm AIGS**).

The 4Paradigm Sage AI Platform, the base platform for developing AI models, is the core of all business. The SHIFT Intelligent Solutions are our intelligent solutions for various industries. 4Paradigm SageGPT AIGS Services are dedicated to empowering software development through generative AI technology to increase development efficiency.

¹ Lighthouse users are the Fortune Global 500 companies or listed companies.

² NDER (net dollar expansion rate) reflects our customer stickiness and willingness to pay. In this announcement, the denominator is the revenue contribution of lighthouse users in 2022, and the numerator is the revenue generated by the retained lighthouse users in 2023.

Performance by Business Segments

4Paradigm Sage AI Platform (4ParadigmSage)

In 2023, the revenue of the 4Paradigm Sage AI Platform (the “**Sage AI Platform**”) business grew by 68.0% year on year to RMB2,506 million, and the scale of revenue growth exceeded RMB1.0 billion. The proportion of the revenue of the Sage AI Platform to the total revenue of the Group increased from 48.4% to 59.6%.

The Sage AI Platform is our platform for developing AI models. Our core product, 4Paradigm Sage AI Platform, can support model training with over a trillion parameters, millisecond real-time reasoning, and model self-learning. In the meantime, based on 4Paradigm’s world-leading AutoML (automated machine learning) technology, we realize low-threshold AI model building and help enterprises build models with a low cost and a high efficiency.

Our products have been market leaders for many years. According to the research conducted by IDC, an international authoritative research institution, the Sage AI Platform has come first in terms of China’s machine learning platform market share for five consecutive years since 2018³, and gained the top spot among Chinese vendors in the Worldwide Machine Learning Operations Platforms (MLOps) Vendor Assessment⁴. The SageGPT large model has already been registered in accordance with the Provisional Administrative Measures for Generative Artificial Intelligence Services and has been selected as one of Beijing’s first seven large model partners.

The 4Paradigm Sage AI Platform supports the scaled coverage of AI scenarios with a low threshold and a low cost.

As the core of all 4Paradigm businesses, the Sage AI Platform greatly reduces the threshold of AI model building, produces standardized models and efficiently reuses them via powerful AI infrastructure, which reduces the average model building cycle from half a year to days, and facilitates the extensive AI applications. Currently, the number of models built on the Sage AI Platform exceeds 10,000.

In the evolution of AI development and application, we continue to devote ourselves to solving the pain points of AI application in various stages of enterprises. The Sage AI Platform 1.0 version (in 2015) significantly improves the model accuracy through high-dimensional, real-time, and self-learning frameworks, which solves the problem of the poor effect of the early models. The Sage AI Platform 2.0 version (in 2017) significantly lowers the model development threshold through the automated modeling tool HyperCycle, allowing tens of millions of programmers in China to develop AI models directly, thus solving the bottleneck in the supply of scientists. Our Sage AI Platform 3.0 version (in 2020) solves the “last

³ Information sources: IDC China Artificial Intelligence Software Market Share Report 2022

⁴ Information sources: IDC MarketScape Worldwide Machine Learning Operations Platforms Vendor Assessment

kilometer” problem from model building to application by standardizing AI data governance and start of production. The Sage AI Platform 4.0 version (in 2022) introduces the North Star methodology and platform⁵ to truly help enterprises enhance their core competitiveness and maximize the business value of AI applications.

Currently, we are about to release version 5.0 of the Sage AI Platform to further promote the extensive use of AI technology by the end of March 2024.

Our Sage AI Platform supports flexible deployment and meets the different needs of various customers for the runtime environment, including software licenses and servers. At the same time, our AI models and applications can also be massively distributed at the edge to be carried as AIoT.

During the Reporting Period, the Company’s AIoT business saw remarkable growth, and the potential to reach more markets increased abruptly. The business covers a variety of markets such as transportation, industrial automation, healthcare, agriculture and smart home furnishings. For example, AIoT technology enables the full-time and panoramic management of all generating units in hydropower stations, which has been applied in a giant hydropower station to ensure the safe operation of the hydropower station. Based on AI vision robotic arm intelligent control technology, it helps a new-energy vehicle manufacturer realize intelligent defect detection. AIoT controls all equipment in operating rooms, which enables human-machine collaborative decision making in the entire process of surgeries, and operating room monitoring and management scheduling. The AIoT business further broadens the boundaries of our products and increases our solution offerings to meet a wider range of market needs.

SHIFT Intelligent Solutions (4Paradigm SHIFT)

In 2023, the SHIFT Intelligent Solutions business recorded revenue of RMB1,283 million, representing a year-on-year growth of 7.4%, accounting for 30.5% of the Group’s total revenue. The SHIFT Intelligent Solutions are a series of intelligent solutions for various industries developed based on the underlying AI capabilities of 4Paradigm and the industry practice experience of 4Paradigm and its partners. It aims to empower the digital and intelligent transformation of many industries with leading AI capabilities to enhance the core competitiveness of enterprises.

We have a rich collection of models and solutions that can continuously help users transform digitally and bring us a steady stream of revenue for the Company’s future development.

⁵ The North Star Metric is the absolute core indicator of a company’s business strategy. This indicator helps the company focus on the most important growth drivers and guides decision-making and resource allocation, which is the best reflection of the company’s long-term success and the realization of its core values. For example, the North Star Metric might be “daily active users” (DAU) on social media platforms.

We emphasize on high-value solutions in a particular domain or industry, which can bring considerable market share and provide a stable revenue stream for us. The Company's solutions are widely used in key industries such as finance, energy and power, telecommunications and transportation, driving the digital transformation of enterprises and industries. New layout and development plans are being carried out in strategic sectors such as manufacturing, healthcare and retail.

During the Reporting Period, we released dozens of solution products, including an intelligent material control solution for the manufacturing industry, which can predict the supply and demand of materials in real time through AI to dynamically adjust rationing schemes. The intelligent supply chain solution for the retail industry covers end-to-end supply chain capabilities such as sales forecasting, distribution capabilities, inventory management starting from fulfillment rate. The medical chronic disease management solution, which predicts early screening and early diagnosis of diabetes and complications with AI models, and facilitates the interaction process between doctors and patients with generative AI, has been selected as one of the first typical digital products and services for chronic disease prevention and treatment by the National Health Commission and the Ministry of Industry and Information Technology (MIIT) in 2023.

Moreover, there are a large number of solutions based on multimodal data such as texts, images and videos in our work with many enterprises. For example, in the retail sector, a lot of marketing generative demands emerged after the large model, and we provided customers with solutions such as video generation, poster generation and digital humans. The data query solution, which is a hybrid of underlying large-model capabilities and expert system, allows the large model to perform controllable execution, correct errors and provide trustable answers when processing the query of enterprises' internal data. It ensures that the results of the query are 100% controllable.

Based on the industry influence of 4Paradigm, we began to organize the SHIFT Digital Transformation Summit in 2022. We will define the future direction of intelligent transformation with enterprise top operators, managers, and industry opinion leaders. A total of 70 chairmen and opinion leaders were invited to attend the SHIFT Summit 2023. The SHIFT Summit will continue to reinforce the authority of 4Paradigm's brands and its influence on the future direction of the industry.

Paradigm Ecology was unveiled in November 2023. Paradigm Ecology is committed to providing end-to-end solutions for various industries based on our definition of the future direction of the industry (the "**North Star System**") and our core technical capabilities, in partnership with our ecological partners. The value of the North Star System lies in the fact that it ensures that solutions serve the enhancement of the core competitiveness of enterprises and avoids the common problem of the disconnection between "digitalization" and "intelligence" and the core competitiveness of enterprises in the current industry. Under the Paradigm Ecology, 4Paradigm provides the North Star System and core AI technology to ecological partners. Ecological partners offer the ability to create end-to-end solutions for the industry. The first batch of more than 40 partners joined Paradigm Ecology, with applications in dozens of industry scenarios.

The SHIFT Summit and the Paradigm Ecology are our key business development directions in the future, including strengthening our market leadership by organizing higher-quality summit events, as well as actively expanding the business layout of the Paradigm Ecology in various industries and the provision of various types of solutions. Through the SHIFT Summit and the Paradigm Ecology, we continue to enhance our position as an industry leader while expanding our market reach and hence our business footprint.

4Paradigm SageGPT AIGS Services (4Paradigm AIGS)

In February 2023, we announced SageGPT 1.0; in April of the same year, we formally announced SageGPT 3.0. SageGPT positioned as a software development platform built upon large model capabilities, and put forward AIGS (AI-Generated Software: Refactoring enterprise software with generative AI) technical strategy. In 2023, the revenue of the 4Paradigm SageGPT AIGS Services segment amounted to RMB416 million, representing a year-on-year growth of 4.7%, accounting for 9.9% of the Group's total revenue.

The AIGS platform is a generative AI software development platform built upon the capabilities of 4Paradigm SageGPT large model. AIGS reshapes the development mode, bringing a clearer path to large-scale development.

Generative AI has huge room for reconstruction and transformation in the field of enterprise software, which can effectively improve the user experience and software development efficiency. Traditional enterprise software usually requires a high operational threshold. Meanwhile, limited by the hierarchical menu design, each feature update and iteration often requires a development cycle of several months.

As an AI software company serving enterprise users, we focus on solving the problems of complex interactive experience and extremely low development efficiency in traditional business-end enterprise software. For example, when serving the industrial process for a large transportation manufacturer in China, we utilized AIGS to transform the traditional industrial designing software. The modified software can accurately and efficiently enable part search operations like 3D search via 2D and 3D search via 3D by simply giving commands using natural voice, and realize automated assembly of multiple parts, which helps customers significantly increase part reuse rate and reduce manufacturing costs.

In addition, generative AI can help developers improve their efficiency in an effective manner. In the face of complex intelligence needs of enterprises, we provide customers with high-quality and high-efficiency custom development services. Our execution team usually consists of experienced IT software developers, and human resources are allocated according to customer needs. Using generative AI to assist developers in programming can significantly improve developers' software development efficiency, thus realizing the economies of scale.

Specifically, the AIGS platform can shorten manual coding time, lower developer training costs, improve code quality and operational efficiency through automatic generation of code snippets, knowledge base application, automated code review and deployment, among others, which in turn help us maximize developer utilization, improve project quality, enhance customer stickiness, and promote large-scale development of business segment. In 2023, we estimated that the AIGS platform helped our developers realize more than a 30% increase in terms of development efficiency.

We will continue to invest in the R&D of the AIGS platform in the future and promote the empowerment of a wider developer group to use it through our ecosystem. As we use the AIGS platform for more clients and projects and target more partners for effective empowerment in the future, it will effectively enhance the efficiency, innovation and overall competitiveness of our ecosystem.

Important Strategies during the Reporting Period

SageGPT industrial large model makes breakthroughs in commercialization in multiple domains, and generative AI accelerates innovation

We are committed to creating complete, mature, and leading AI platform-based products. Our deep AI technology accumulation helps us make accurate predictions for future technology directions and carry out forward-looking plans in important R&D areas.

4Paradigm has been deeply engaged in high-dimensional modeling for nearly 10 years, with systematic large model development capability and productization capability. We have been accumulating in large models for more than 4 years. In February 2023, we were the first to release “SageGPT” 1.0, a self-developed platform product for developing industrial large model, which was among the first commercialized large model products in China. SageGPT large model is in the global leading position in terms of technical indicators like understanding, reasoning and generative capability. In 2023, it was selected as one of the first 7 model partners in Beijing, and then selected as one of the first “2023 Trusted AI Cases – Excellent Cases of Large Model R&D Application and Tool Platform” by the China Academy of Information and Communications Technology. The SageGPT large model has already been registered in accordance with the Provisional Administrative Measures for Generative Artificial Intelligence Services in China.

In addition to building first-class large model products, we have also injected considerable R&D resources to make large models more “intelligent” in multimodality, copilot and Chain-of-Thought (CoT). In the future, we will continue to invest in optimizing and upgrading the above capabilities to further consolidate our leading position in the SageGPT large model.

- **Multimodality:** Based on the generative dialogue capability, the SageGPT large model has multi-modal input and output capabilities such as text, voice, image, table and video. For instance, in the field of computer vision, large models can combine image and text information for object recognition and scene understanding, enhancing the accuracy and comprehensiveness of image recognition tasks.
- **Copilot:** Using the enterprise-level Copilot capability, the SageGPT can connect with enterprises’ internal application libraries and private data to analyze the information and data, answer employees’ questions or perform related tasks, making it a business assistant.
- **Chain-of-Thought (CoT):** The SageGPT large model has Chain-of-Thought ability, which forms a complete thought process based on a series of logically related thought steps.

In April 2023, along with the release of SageGPT 3.0, we first proposed our AIGS (AI-Generated Software) strategy to refactor enterprise software with generative AI and positioned our products as a new development platform based on multi-modal large models to enhance the experience and development efficiency of enterprise software.

In 2023, our large model business was widely expanded to such fields as finance, manufacturing, healthcare, retail, real estate brokerage, education and energy, enhancing generative related services for hundreds of enterprises and partners. In the past year, “SageGPT” built a network operation platform intelligent assistant for a telecommunication client to empower its frontline employees, co-built a large model of real estate brokerage together with a leading real estate brokerage firm, refactored the industrial designing software of an transportation manufacturer, enabling the search and automated assembly for 3D parts through a large model. Such case was listed in the MIT Technology Review as an “Advanced Application Case of China’s Large AI Model”.

R&D Investment and Talent Strategy

We recognize that talent and innovation are the core drivers of sustainable growth, so we are committed to implementing forward-looking R&D investments and talent strategies. We reinvest a significant percentage of our annual revenue in R&D areas that drive long-term strategic value. In 2023, our R&D spending exceeded RMB1.7 billion, with a R&D expense ratio of more than 40%. These investments are made not only in research and development of new technologies, but also in the continuous enhancement of existing products and solutions to ensure that we remain at the forefront of the industry and maintain competitive advantages.

In 2023, we made significant breakthroughs in many cutting-edge technologies, received numerous recognitions from academia and industry, and had 25 papers accepted by top-class AI conferences and journals. Our biocomputing technology was featured in a sub-journal of Nature.

In terms of model development and product R&D, our ability to code based on large models has significantly improved our development efficiency. This means that we are able to quickly iterate model effects with greater efficiency.

In the meantime, we uphold the spirit of openness and sharing to promote technological development. OpenMLDB, an open-source machine learning database led by us, featured in the flagship magazine of ACM. In addition, we developed an open-source reinforcement learning framework, which has gained widespread attention in the field. We worked closely with renowned institutions at home and abroad to build an industry-academia-research collaborative innovation community, conduct research on core technologies, organize high-standard training of innovative talents, and create an innovative ecosystem that combines academic research and industrial applications.

Corporate Social Responsibility

From the very beginning, we have been committed to using AI technology to contribute to a wide range of industries and to assume environmental, social and governance responsibilities. We are not only concerned about how to utilize AI technology to promote business development, but also focus on developing and deploying technological solutions aimed at solving social problems and fulfilling social responsibilities through AI technology, so as to make positive contributions to the development of a fairer and more sustainable social environment.

We use our AI technology to promote the conservation of biodiversity. Our AI technology allows people to identify, analyze and capture images of endangered wild animals with high precision, providing a valuable source of information for the research of animal behavior, the discovery of wild animals' life patterns, and the entire environmental ecosystem.

Antiques and antiquarian books contain an important part of human history and culture. However, due to technical difficulties in physically preserving these books and identifying ancient literature, we may lose a great deal of the information contained in them.

Learning ancient texts is an extremely difficult tasks for human beings, whereas AI technologies are at an advantage: By processing large amounts of illegible texts, our AI solutions are able to discover patterns and rules and therefore learn to identify the texts in an accurate and efficient manner.

To permanently preserve and inherit the Buddhist canonical text, Tripitaka, Fourth Paradigm employs deep learning and transfer learning techniques to process a large volume of illegible texts. This has resulted in a recognition accuracy of over 98% for ancient manuscript text. By infusing artificial intelligence into the restoration of ancient books, this work provides a new paradigm for cultural inheritance.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,	
		2023	2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	4,204,142	3,082,637
Cost of sales	6	<u>(2,224,594)</u>	<u>(1,595,991)</u>
Gross profit		1,979,548	1,486,646
Selling and marketing expenses	6	(423,384)	(412,152)
General and administrative expenses	6	(341,943)	(527,638)
Research and development expenses	6	(1,768,996)	(1,650,010)
Credit loss allowance	6	(79,537)	(48,914)
Other income	5	89,426	62,662
Other (losses)/gains, net		<u>(548)</u>	<u>63,504</u>
Operating loss		(545,434)	(1,025,902)
Share of losses of investments accounted for using the equity method		(1,597)	(3,200)
Finance income		54,218	46,183
Finance costs		<u>(438,016)</u>	<u>(682,175)</u>
Loss before income tax		(930,829)	(1,665,094)
Income tax credit	7	<u>10,260</u>	<u>11,673</u>
Loss for the year		<u>(920,569)</u>	<u>(1,653,421)</u>
Other comprehensive income/(loss):			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		(3,126)	(7,162)
<i>Item that will not be reclassified to profit or loss</i>			
Share of other comprehensive income of investments accounted for using the equity method		<u>5,814</u>	<u>4,345</u>
Other comprehensive income/(loss) for the year, net of tax		<u>2,688</u>	<u>(2,817)</u>
Total comprehensive loss for the year		<u>(917,881)</u>	<u>(1,656,238)</u>

		Year ended December 31,	
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
Loss attributable to:			
Owners of the Company		(908,717)	(1,644,897)
Non-controlling interests		(11,852)	(8,524)
		<u>(920,569)</u>	<u>(1,653,421)</u>
Total comprehensive loss attributable to:			
Owners of the Company		(906,029)	(1,647,714)
Non-controlling interests		(11,852)	(8,524)
		<u>(917,881)</u>	<u>(1,656,238)</u>
Loss per share for loss attributable to owners of			
the Company (expressed in RMB per share)			
	8		
Basic		(2.80)	(6.15)
Diluted		(2.80)	(6.15)
		<u>(2.80)</u>	<u>(6.15)</u>

CONSOLIDATED BALANCE SHEET

		As at December 31,	
		2023	2022
	Note	RMB'000	RMB'000
Assets			
Non-current assets			
Right-of-use assets		44,363	70,002
Property and equipment		47,047	48,421
Intangible assets		425,678	457,306
Investments accounted for using the equity method		53,436	45,865
Financial assets at fair value through profit or loss	9	456,824	477,889
Contract assets		21,273	16,295
Term bank deposits		204,157	685,039
Other non-current assets		237,970	–
		<u>1,490,748</u>	<u>1,800,817</u>
Current assets			
Inventories		295,262	349,872
Contract assets		42,104	31,093
Trade receivables	10	1,843,610	1,493,238
Prepayments and other receivables		384,388	380,064
Financial assets at fair value through profit or loss	9	562,335	1,330,166
Term bank deposits		492,946	–
Restricted cash		57,990	6,916
Cash and cash equivalents		1,977,891	1,326,818
		<u>5,656,526</u>	<u>4,918,167</u>
Total assets		<u>7,147,274</u>	<u>6,718,984</u>

		As at December 31,	
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		465,859	437,706
Treasury stock		–	(4,898,094)
Reserves		9,969,638	7,063,334
Accumulated losses		(5,086,375)	(4,177,658)
		5,349,122	(1,574,712)
Non-controlling interests		103,392	113,701
		5,452,514	(1,461,011)
Liabilities			
Non-current liabilities			
Lease liabilities		20,189	43,721
Deferred income tax liabilities		1,482	14,324
Borrowings	<i>12</i>	12,500	24,000
Redemption liabilities		–	6,493,159
Other non-current liabilities		17,439	53,682
		51,610	6,628,886
Current liabilities			
Trade payables	<i>11</i>	1,043,189	863,234
Other payables and accruals		270,597	226,161
Contract liabilities		146,184	325,731
Lease liabilities		25,697	28,311
Income tax liabilities		4,037	1,844
Borrowings	<i>12</i>	96,247	48,554
Other current liabilities		57,199	57,274
		1,643,150	1,551,109
Total liabilities		1,694,760	8,179,995
Total equity and liabilities		7,147,274	6,718,984

NOTES:

1 GENERAL INFORMATION

Beijing Fourth Paradigm Technology Co., Ltd. (the “**Company**”, formerly known as Shenzhen Qianhai Fourth Paradigm Data Technology Co., Ltd.) was incorporated in Shenzhen, the People’s Republic of China (the “**PRC**”) on September 17, 2014 as a limited liability company, and relocated to Beijing, PRC on April 21, 2021. On July 9, 2021, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. The address of the Company’s registered office is No. L01301-1, Level 13, Building 1, No. 66, Qinghe Middle Street, Haidian District, Beijing, PRC.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “**Group**”) are primarily engaged in sales of self-developed artificial intelligence (“**AI**”) platform (“**Sage Platform**”) and other ready-to-use applications and provision of application development and other services in the PRC and certain overseas countries and regions.

Dr. Dai Wenyuan is the ultimate controlling shareholder of the Group as at the date of this announcement.

On September 28, 2023, the Company has successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The consolidated financial statements of the Group is presented in Renminbi (“**RMB**”), unless otherwise stated.

2 SUMMARY OF ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (“**IASB**”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements of the Group have been prepared under the historical cost convention, except that certain financial assets (including derivative instruments) are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

All new and amended standards issued by IASB, which are mandatory for the year ended December 31, 2023, have been consistently applied by the Group throughout the years presented.

Amended standards have not been early adopted

Amended standards that have been issued but not yet effective and not been early adopted by the Group for the year ended December 31, 2023 are as follows:

		Effective for annual period beginning on or after
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	January 1, 2024
Amendments to IAS 21	Lack of Exchangeability	January 1, 2025
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors of the Company are of the view that the above amended standards that have been issued are not expected to have any significant impact on the Group.

3 SEGMENT INFORMATION

The Group's business activities are sales of Sage Platform and other ready-to-use applications and provision of application development and other services mainly in the PRC. The Group does not distinguish revenue, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole.

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reports. As substantially all of the Group's non-current assets are all located in the PRC and substantially all of the Group's revenue are derived from the PRC, no geographical information is presented.

For the year ended December 31, 2023, revenue of approximately RMB535,040,000 was derived from an external customer which accounted for approximately 12.7% of the Group's revenue. For the year ended December 31, 2022, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group's revenue.

4 REVENUE

The Group derives revenue from the transfer of goods and services at a point in time and over time are analyzed as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Point in time	4,129,221	3,018,068
Over time	74,921	64,569
	<u>4,204,142</u>	<u>3,082,637</u>

5 OTHER INCOME

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Government grants	16,251	5,275
Value-added tax and other tax refunds	71,228	52,397
Others	1,947	4,990
	<u>89,426</u>	<u>62,662</u>

Government grants primarily relate to grants in connection with the Group's contributions to technology development and investments in local business districts. Those grants are not stipulated with any unfulfilled conditions or contingencies.

6 EXPENSES BY NATURE

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Employee benefit expenses	661,506	1,107,799
Technology service fees	2,447,654	2,002,438
Cost of finished goods sold	1,053,563	613,183
Advertising and marketing expenses	255,759	198,035
Depreciation and amortization		
– Property and equipment	18,535	16,763
– Right-of-use assets	28,651	27,610
– Intangible assets	34,152	36,472
Cloud service and other technical service fees	23,686	35,504
Auditor's remuneration		
– Audit services	9,960	975
– Non-audit services	200	–
Listing expenses	80,094	44,720
Other professional fees	35,343	15,591
Business travel expenses	37,237	24,955
Credit loss allowance	79,537	48,914
Impairment provision for inventories	1,866	1,125
Others	70,711	60,621
	<u>4,838,454</u>	<u>4,234,705</u>

7 INCOME TAX CREDIT

The income tax credit of the Group for the years ended December 31, 2023 and 2022 are analyzed as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Current income tax	2,582	2,180
Deferred income tax	<u>(12,842)</u>	<u>(13,853)</u>
Income tax credit	<u>(10,260)</u>	<u>(11,673)</u>

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the Group as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Loss before income tax	<u>(930,829)</u>	<u>(1,665,094)</u>
Tax calculated at statutory income tax rate of 25% in mainland China (<i>Note (a)</i>)	(232,707)	(416,274)
Tax effects of:		
– Effect of lower tax rates in other jurisdictions (<i>Notes (b), (c)</i>)	1,888	1,946
– Preferential income tax rate applicable to subsidiaries (<i>Note (d)</i>)	38,835	77,228
– Tax losses and temporary differences for which no deferred income tax assets was recognized	106,856	116,596
– Expenses not deductible for income tax purposes	108,808	236,310
– Super Deduction for research and development expenses (<i>Note (e)</i>)	(30,197)	(22,874)
– Impact of share of results and net gains on disposal/transfer/ dilution of investments accounted for using the equity method	84	(1,030)
– Utilization of previously unrecognized tax losses	<u>(3,827)</u>	<u>(3,575)</u>
Income tax credit	<u>(10,260)</u>	<u>(11,673)</u>

Notes:

(a) Enterprise Income Tax in Mainland China (“EIT”)

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the respective year presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Hong Kong Income Tax

The entity 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 HKD2 million and 16.5% for any assessable profits in excess of HKD2 million.

No provision for Hong Kong profits tax was made as the Group had no estimated assessable profit that was subject to Hong Kong profits tax during the years presented.

(c) Singapore Income Tax

The entity incorporated in Singapore is 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 the Group had no estimated assessable profit that was subject to Singapore income tax during the years presented.

(d) Preferential EIT Rate

Certain subsidiaries in mainland China are entitled to preferential EIT rate of 15%, mainly include the follows:

Fourth Paradigm (Beijing) Data & Technology Co., Ltd. was qualified as a “High and New Technology Enterprise” (“**HNTE**”) in December 2016 and renewed the qualification in December 2019 and November 2022, hence it enjoys a preferential income tax rate of 15% for nine years from 2016 to 2024.

Guangzhou Jianxin Technology Co., Ltd. (“**Guangzhou Jianxin**”) was qualified as an HNTE in December 2020 and renewed the qualification in December 2023, hence it enjoys a preferential income tax rate of 15% for six years from 2020 to 2025.

Beijing Ideal Information Technology Co., Ltd. was qualified as an HNTE in September 2018 and renewed the qualification in September 2021, hence it enjoys a preferential income tax rate of 15% from 2018 to 2023.

EpicHust Technology (Wuhan) Co., Ltd., a subsidiary acquired in June 2022, was qualified as an HNTE in December 2020 and renewed the qualification in December 2023, hence it enjoys a preferential income tax rate of 15% for six years from 2020 to 2025.

Management considers that the above subsidiaries can be continued to be qualified as HNTEs upon renewal and hence will continue to enjoy the preferential income tax rate of 15% in the foreseeable future.

(e) Super Deduction for Research and Development Expenses

As announced in March 2022 and September 2022 by the State Taxation Administration of the People’s Republic of China, technology-based small and medium-sized enterprises would entitle to claim 200% of their research and development expenses (“**Super Deduction**”) 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 (prior deduction rate: 175%). As announced in March 2023, all enterprises engaging in research and development activities would entitle to claim 200% of their research and development expenses as Super Deduction from January 1, 2023. The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits.

8 LOSS PER SHARE

The basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective year. In determining the weighted average number of ordinary shares in issue, the contingently returnable shares, i.e. shares with preferred rights, are excluded from the calculation, the impact of which was 125,965,129 and 170,286,193 shares for the years ended December 31, 2023 and 2022, respectively.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the Group incurred losses for the respective years, the potential ordinary shares, i.e. shares with preferred rights, were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended December 31, 2023 and 2022 are the same as basic loss per share for the respective years.

	Year ended December 31,	
	2023	2022
Loss attributable to owners of the Company (RMB'000)	(908,717)	(1,644,897)
Weighted average number of ordinary shares in issue (thousand shares)	324,817	267,463
	<hr/>	<hr/>
Basic and diluted loss per share for loss attributable to owners of the Company (expressed in RMB per share)	(2.80)	(6.15)
	<hr/>	<hr/>

9 INVESTMENTS

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Non-current assets		
Long-term investments measured at fair value through profit or loss		
– Unlisted equity securities	84,858	77,173
– Preferred shares investments	20,372	23,992
– Fund investments	351,594	376,724
	<hr/>	<hr/>
	456,824	477,889
	<hr/>	<hr/>
Current assets		
Short-term investments measured at fair value through profit or loss		
– Wealth management products	106,845	1,330,166
– Fund investments	455,490	–
	<hr/>	<hr/>
	562,335	1,330,166
	<hr/>	<hr/>

10 TRADE RECEIVABLES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Third parties	1,960,339	1,554,420
Less: credit loss allowance	(116,729)	(61,182)
	<hr/>	<hr/>
	1,843,610	1,493,238
	<hr/>	<hr/>

The carrying amounts of the Group's trade receivables are mainly denominated in RMB.

Movements on the Group's credit loss allowance for trade receivables are as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	(61,182)	(20,161)
Credit loss allowance recognized, net	(72,087)	(43,695)
Receivables written off as uncollectable	16,540	2,674
	<hr/>	<hr/>
At the end of the year	(116,729)	(61,182)
	<hr/>	<hr/>

The Group generally allows a credit period within 90 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	832,085	957,044
3 to 6 months	655,045	278,486
6 months to 1 year	252,712	130,321
Over 1 year	220,497	188,569
	<hr/>	<hr/>
	1,960,339	1,554,420
	<hr/>	<hr/>

11 TRADE PAYABLES

Trade payables primarily include payables for inventories and outsourcing service fees.

As at December 31, 2023 and 2022, the carrying amounts of trade payables were primarily denominated in RMB.

Trade payables and their aging analysis based on invoice date are as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Up to 3 months	578,906	710,871
3 to 6 months	222,511	65,314
Over 6 months	241,772	87,049
	<hr/>	<hr/>
	1,043,189	863,234
	<hr/>	<hr/>

12 BORROWINGS

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Included in current liabilities		
Secured borrowings	11,500	11,000
Factoring borrowings	6,030	5,894
Unsecured borrowings	78,717	31,660
	<u>96,247</u>	<u>48,554</u>
Included in non-current liabilities		
Secured borrowings	12,500	9,000
Unsecured borrowings	–	15,000
	<u>12,500</u>	<u>24,000</u>

13 DIVIDENDS

No dividends have been paid or declared by the Company during the years ended December 31, 2023 and 2022.

14 SUBSEQUENT EVENTS

On February 9, 2024, the Group entered into an equity transfer agreement with Ningbo Herong Shengjing Investment Management Partnership (Limited Partnership) (“**Transferee**”), pursuant to which the Transferee will acquire from the Group a partial of its equity interest in a subsidiary, Guangzhou Jianxin (the “**Target Company**”), at a consideration of RMB88,000,000. As at the date of this announcement, the equity transfer has not been completed yet. Upon completion of the equity transfer and the adoption of the revised article of association of the Target Company, the Group’s shareholding in the Target Company will decrease from 66% to 44% and will no longer control the majority of the board of the Target Company. The Target Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statements of the Group. The Target Company will become an associate of the Group and the financial performance of the Target Company will be accounted for using the equity method. The actual gain to be recorded by the Group from the equity transfer is subject to valuation and financial position of the Target Company on the completion date.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In 2023, the Group recorded robust growth in total revenue, up by 36.4% year on year to RMB4,204.1 million. Net loss narrowed for two consecutive years since 2021, down by 44.3% year on year to RMB920.6 million. We maintain our leading position in China's enterprise AI software industry, and have been ranked No. 1 by IDC in terms of the Chinese machine learning platform market share for five consecutive years since 2018.

Revenue

As a steadily growing and developing AI software company, Fourth Paradigm have further expanded our industry influence and business boundary by virtue of our deep technology accumulation and industry application experience. Currently, the Company has established three major business segments: Sage AI Platform, SHIFT Intelligent Solutions and SageGPT AIGS Services. During the Reporting Period, our total revenue amounted to RMB4,204.1 million (corresponding period in 2022: RMB3,082.6 million), representing a year-on-year increase of 36.4%, which was mainly driven by the significant increase in revenue from our Sage AI Platform. For the year ended December 31, 2023, revenue from the Sage AI Platform rose by 68.0% from the preceding year to RMB2,505.7 million, accounting for 59.6% of the total revenue, revenue from the SHIFT Intelligent Transformation Solutions grew by 7.4% from preceding year to RMB1,282.9 million, accounting for 30.5% of the total revenue, and revenue from the SageGPT AIGS Services increased by 4.7% from preceding year to RMB415.5 million. The following table sets forth a breakdown of our revenue by business segment for the periods indicated.

	Year ended December 31,		Change
	2023	2022	
	<i>RMB in millions</i>	<i>RMB in millions</i>	
Sage AI Platform	2,505.7	1,491.9	68.0%
SHIFT Intelligent Solutions	1,282.9	1,194.0	7.4%
SageGPT AIGS Services	415.5	396.7	4.7%
Total	4,204.1	3,082.6	36.4%

Sage AI Platform

During the Reporting Period, our revenue from the Sage AI Platform amounted to RMB2,505.7 million (corresponding period in 2022: RMB1,491.9 million), representing a year-on-year increase of 68.0%, and the proportion of revenue from the Sage Platform and products to total revenue grew from 48.4% for the year ended December 31, 2022 to 59.6% for the year ended December 31, 2023, which was primarily due to the strong growth in revenue from the Sage AI Platform benefiting from the growth in demand of the overall AI market and the empowerment of the Company's products by its large model and generative AI.

SHIFT Intelligent Solutions

During the Reporting Period, revenue generated from the SHIFT Intelligent Solutions amounted to RMB1,282.9 million (the corresponding period in 2022: RMB1,194.0 million), representing a year-on-year increase of 7.4%, and the proportion of revenue generated from SHIFT Intelligent Solutions to total revenue decreased from 38.7% for the year ended December 31, 2022 to 30.5% for the year ended December 31, 2023, mainly due to an increase in the share of revenue from the Sage AI Platform.

SageGPT AIGS Services

During the Reporting Period, revenue generated from the SageGPT AIGS Services amounted to RMB415.5 million (the corresponding period in 2022: RMB396.7 million), representing a year-on-year increase of 4.7%, and the proportion of revenue generated from the SageGPT AIGS Services to total revenue decreased from 12.9% for the year ended December 31, 2022 to 9.9% for the year ended December 31, 2023, which was mainly attributable to an increase in the share of revenue from the Sage AI Platform.

Cost of Sales

Our cost of sales primarily consists of (i) cost of finished goods sold, primarily representing procurement cost of hardware components from third-party vendors, (ii) technology service fees, primarily representing technology implementation costs paid to third-party service providers for delivery, deployment and installation of customized AI applications that we develop at users' request, (iii) employee benefit expenses, representing wages and benefits of our implementation and maintenance personnel for our enterprise AI solutions, and (iv) others.

During the Reporting Period, our cost of sales amounted to RMB2,224.6 million (the corresponding period in 2022: RMB1,596.0 million), representing a year-on-year increase of 39.4%. Such increase was mainly due to the increase in hardware procurement costs and technical service fees.

Gross Profit and Gross Profit Margin

Our gross profit grew by 33.2% from RMB1,486.6 million for the year ended December 31, 2022 to RMB1,979.5 million for the year ended December 31, 2023, while our overall revenue increased. Our gross profit margin fell slightly from 48.2% for the year ended December 31, 2022 to 47.1% for the year ended December 31, 2023, primarily due to an increase in hardware and technical service fees as a percentage of revenue because of the penetration of our business into new fields and an increase in new users.

Selling and Marketing Expenses

During the Reporting Period, our selling and marketing expenses were RMB423.4 million (corresponding period in 2022: RMB412.2 million), representing a year-on-year increase of 2.7%, mainly due to the increase in marketing and branding activities.

General and Administrative Expenses

During the Reporting Period, our general and administrative expenses amounted to RMB341.9 million (the corresponding period in 2022: RMB527.6 million), representing a decrease of 35.2% year-on-year, which was mainly due to a decrease in related employee benefit expenses.

Research and Development Expenses

We continuously invest in the development and enhancement of our solutions and technologies as in the past. During the Reporting Period, the total research and development expenses of the Group further increased to RMB1,769.0 million (corresponding period in 2022: RMB1,650.0 million), representing a year-on-year increase of 7.2%, which was largely due to the increase in technical service fees in relation to research and development.

Credit Loss Allowance

Our credit loss allowance mainly includes the credit loss allowance on trade receivables, contract assets and other receivables.

During the Reporting Period, our credit loss allowance was RMB79.5 million as compared to RMB48.9 million during the same period in 2022, primarily due to the year-on-year increase in trade receivables.

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.

During the Reporting Period, our other income was RMB89.4 million (corresponding period in 2022: RMB62.7 million).

Other (Losses)/Gains, Net

Our other (losses)/gains, net primarily consist of (i) fair value changes on financial assets at fair value through profit or loss, (ii) exchange (losses)/gains, net, and (iii) net gains on disposal/transfer/dilution of investments accounted for using the equity method.

During the Reporting Period, our other losses, net amounted to RMB0.5 million, representing a year-on-year decrease of 100.9% (other gains, net for the corresponding period in 2022: RMB63.5 million), primarily due to the decrease in fair value gains on financial assets at fair value through profit or loss.

Operating Loss

As a result of the foregoing, during the Reporting Period, our operating loss amounted to RMB545.4 million, representing a year-on-year decrease of 46.8% (operating loss for the corresponding period in 2022: RMB1,025.9 million).

Finance Income

During the Reporting Period, our finance income amounted to RMB54.2 million, representing a year-on-year increase of 17.4% (corresponding period in 2022: RMB46.2 million), primarily due to the increase in interest income from bank deposits.

Finance Costs

During the Reporting Period, our finance costs amounted to RMB438.0 million, representing a year-on-year decrease of 35.8% (corresponding period in 2022: RMB682.2 million), primarily due to the decrease in interests from redemption liabilities.

Loss for the year

As a result of the foregoing, during the Reporting Period, we reported a loss for the year of approximately RMB920.6 million, representing a year-on-year decrease of 44.3% (loss for the year for the corresponding period in 2022: RMB1,653.4 million).

Non-IFRS Measures

To supplement our consolidated financial statements presented in accordance with IFRS, we use 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 investors in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of 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 investors 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 Net Loss

We define adjusted net loss as loss for the year adding back share-based compensation, interest expense on redemption liabilities and listing expenses.

The following table reconciles our adjusted net loss for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, which is loss for the year.

	Year ended December 31,		Change %
	2023	2022	
	RMB'000	RMB'000	
Reconciliation of loss for the year and adjusted net loss			
Loss for the year	(920,569)	(1,653,421)	-44.3%
Share-based compensation	-	433,403	-100.0%
Interest expense on redemption liabilities	425,016	670,963	-36.7%
Listing expenses	80,094	44,720	79.1%
	<u>(415,459)</u>	<u>(504,335)</u>	-17.6%
Adjusted net loss	(415,459)	(504,335)	-17.6%

Liquidity and Financial Resources

We have historically funded our cash requirements principally from capital contributions from shareholders. After the Global Offering, 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.

As at December 31, 2023, all the Group's borrowings were denominated in RMB. Save for the interest-free borrowing of RMB15.0 million from a non-controlling shareholder, the Group's borrowings bear fixed interest rates between 3.75%–4.85%. In terms of maturity profile, borrowings repayable (i) less than 1 year, (ii) between 1 year and 2 years, (iii) between 2 years and 5 years and (iv) over 5 years amounted to RMB96.2 million, RMB8.5 million, RMB4.0 million and nil, respectively.

Cash and Cash Equivalents and Term Deposits

As at December 31, 2023, cash and cash equivalents and term deposits of the Group totalled approximately RMB2,675.0 million (December 31, 2022: RMB2,011.9 million). Most of the cash and cash equivalents of the Group were denominated in RMB. The term deposits of the Group were denominated in RMB.

Liquid Cash Resources

The Group's liquid cash resources comprise cash and cash equivalents, short-term and long-term bank deposits, short-term investments measured at fair value through profit or loss, and restricted cash. As at December 31, 2023, the Group had liquid cash resources of approximately RMB3,295.3 million (December 31, 2022: RMB3,348.9 million).

Net Current Assets

Our net current assets increased from RMB3,367.1 million as at December 31, 2022 to RMB4,013.4 million as at December 31, 2023, primarily due to the increase in cash and cash equivalents following the completion of the Global Offering by the Company.

The carrying amount of redemption liabilities has been derecognized upon listing, and the difference between redemption liabilities and treasury shares is credited to capital reserve.

Current Ratio

As at December 31, 2023, net current assets of the Group were approximately RMB4,013.4 million (December 31, 2022: RMB3,367.1 million). As at December 31, 2023, the current ratio of current assets to current liabilities was approximately 3.4, up from 3.2 as at December 31, 2022.

Capital Management and Gearing Ratio

In order to maintain or adjust the capital structure, we may issue new shares or sell assets to reduce debt. We monitor capital on basis of the gearing ratio. As at December 31, 2023, our gearing ratio, calculated as total borrowings divided by total equity attributable to equity holders of the Company, was approximately 2.0% (December 31, 2022: -4.6%).

Capital Commitments

As at December 31, 2023, we had capital commitments with respect to equity investments amounting to RMB12.0 million (December 31, 2022: Nil).

Contingent Liabilities

As at December 31, 2023, we did not have any material contingent liabilities.

Pledge of Assets

As at December 31, 2023, save for (i) the pledge over patent rights of the Group to secure the borrowings of RMB24.0 million and (ii) restricted cash of RMB58.0 million as security deposits mainly for bidding, issuance of letter of guarantee or bank acceptance bills, the Group had no material pledge of assets.

Foreign Exchange Risk Management

The functional currency of the Company and its major subsidiaries is RMB. The majority of the revenues of the Group are derived from operations in the PRC. Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of entities comprising the Group. Fluctuations in exchange rates between RMB and other currencies will affect the Group's financial position and results of operations in the course of business. The foreign exchange risk facing the Group mainly comes from the US dollars/RMB and Hong Kong dollars/RMB exchange rates. As at December 31, 2023, the Group did not hold any financial instruments for hedging purposes; neither did it hold any foreign currency investment hedged by currency borrowings nor other hedging instruments.

Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, restricted cash, term bank deposits, investments in debt instruments 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 investments in debt instruments measured at fair value through profit or loss, we only transact with state-owned banks and reputable or licensed 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. We usually grant a credit term 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 the Group's outstanding other receivables balances due from them is low.

Fund and Working Capital Management

Our funds and liquidity management are centrally carried out by our finance department. Our finance department is generally responsible for overall management and implementation of funds, including formulating the capital management policy for our Group, guiding, coordinating and standardizing the fund management of regional companies, making annual funding plans, reviewing and summarizing annual capital budget, overseeing and assessing fund management of each regional company. We have also adopted sophisticated fund management policies and implemented a set of rules and guidelines on fund management to enhance the effectiveness and efficiency of fund management, thereby ensuring our financial security and reducing cost of capital.

To manage our idle cash on hand, we primarily purchase and redeem wealth management products using them as our “cash pool” from which we could readily access cash as needed and generate higher yield than bank deposits. The underlying financial assets of the wealth management products in which we invested primarily consist of the low-risk wealth management products issued by state-owned banks or other high-quality reputable banks in China. The amount of the purchase will be determined based on our surplus funds. We consistently comply with our treasury policy during the procedures of purchasing the wealth management products and managing the relevant departments, as well as in conducting business, accounting and filing.

We are committed to safeguarding overall financial security and maintaining strong cash position and a healthy debt profile with strong repayment ability. By adopting a full, reasonable and professional assessment mechanism, preparing annual and monthly funding plans, we have established a set of prudent fund management principle, which allows us to efficiently manage market risks.

Material Acquisitions and Disposals and Significant Investments

The financial assets that we invested mainly include investments in wealth management products, unlisted equity securities, preferred shares investments and fund investments. The H Shares of the Company were listed on September 28, 2023 and therefore transactions in these financial assets from January 1, 2023 to September 28, 2023 were not subject to Chapter 14 of the Listing Rules. The Board confirmed that the transactions in these financial assets on standalone and aggregate basis from the Listing Date to the date of this announcement did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

As of the date of this announcement, we did not hold any significant investments in other companies’ equity interest. For the period from the Listing Date to the date of this announcement, save for the transfer of part of the equity interest in Guangzhou Jianxin, there were no material acquisitions, disposals or significant investment of subsidiaries, associates and joint venture by the Company. Please refer to the Company’s announcement dated February 9, 2024 in relation to the transfer of part of equity interest in Guangzhou Jianxin.

Future Plans for Significant Investments and Capital Assets

As at the date of this announcement, we did not have plans for significant investments and capital assets.

EMPLOYEES

As at December 31, 2023, we had 1,801 employees in total. Our success depends on our ability to attract, retain and motivate qualified personnel. We provide various incentives and benefits to our employees. We offer competitive salaries, bonuses and share-based compensation to our employees, especially key employees.

As required under PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury, maternity, and unemployment benefit plans.

To maintain the quality, knowledge and skill levels of our workforce, we provide continuing education and training programs, including internal and external training, for our employees to improve their technical, professional or management skills. We also provide training programs to our employees from time to time to ensure their awareness and compliance with our policies and procedures in various aspects.

We have granted and may continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

EVENTS AFTER THE REPORTING PERIOD

On February 9, 2024, the Group entered into an equity transfer agreement with Ningbo Herong Shengjing Investment Management Partnership (Limited Partnership) (“**Transferee**”), pursuant to which the Transferee will acquire from the Group the corresponding equity interest of RMB11,000,000 in the registered capital of Guangzhou Jianxin (“**Target Company**”), representing 22% of the Target Company’s registered capital, at a consideration of RMB88,000,000. As at the date of this announcement, the equity transfer has not been completed yet. Upon completion of the equity transfer and the adoption of the revised article of association of the Target Company, the Group will still hold 44% equity interest in the Target Company, but will no longer control the majority of board of the Target Company. The Target Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statements of the Group. The Target Company will become an associate of the Group and the financial performance of the Target Company will be accounted for using the equity method. The actual gain to be recorded by the Group from the equity transfer is subject to valuation and financial position of the Target Company on the completion date.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2023 (year ended December 31, 2022: Nil).

CORPORATE GOVERNANCE

The Board is committed to achieving good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate our business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix C1 to the Listing Rules as the basis of the Company’s corporate governance practices.

In the opinion of the Directors, during the Reporting Period, the Company has complied with all code provisions set out in the CG Code save as the code provision C.2.1 of the CG Code as set out below:

Pursuant to code provision C.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between Chairman and Chief Executive Officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Dr. Dai currently performs these two roles. Dr. Dai has assumed the role of Chief Executive Officer of our Company since 2015. He has extensive experience in the business operations and management of our Group and in the AI industry. Our Board believes that, in view of his experience, personal profile and his roles in our Company as mentioned above, Dr. Dai is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as our Chief Executive Officer. The Board also believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of (i) ensuring consistent leadership within the Group, (ii) enabling more effective and efficient overall strategic planning and execution of strategic initiatives of the Board, and (iii) facilitating the flow of information between the management and the Board for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired, and this arrangement will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of Chairman of the Board and Chief Executive Officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Save as disclosed herein, the Group has complied with the code provisions contained in the CG Code throughout the Reporting Period and up to the date of this announcement.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries by the Company with the Directors, all of the Directors confirmed that they had complied with the required standards as set out in the Model Code from the Listing Date to the date of this announcement.

The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are also subject to the Model Code. No incident of non-compliance with the Model Code by the employees was noted by the Company from the Listing Date to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities from the Listing Date and up to the date of this announcement.

AUDIT COMMITTEE

The Board has established the Audit Committee which comprises two independent non-executive Directors and one non-executive Director, namely Mr. Li Jianbin (李建濱), Mr. Liu Chijin (劉持金) and Dr. Yang Qiang (楊強). Mr. Li Jianbin, being the chairman of the Audit Committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules. The Audit Committee has also adopted written terms of reference which clearly set out its duties and obligations (the terms of reference are available on the websites of the Company and Stock Exchange).

The Audit Committee has jointly reviewed with the management of the Company the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the audited consolidated financial statements for the year ended December 31, 2023) of the Group. The Audit Committee is of the opinion that the annual financial information for the year ended December 31, 2023 complies with applicable accounting standards, laws and regulations and that appropriate disclosures have been made.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet, and the related notes thereto for the year ended December 31, 2023 as set out in this results announcement have been agreed to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2023 by PricewaterhouseCoopers, the Company's auditor. The work performed by the Company's auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the Company's auditor on this results announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT 2023

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.4paradigm.com). The annual report of the Company for the Reporting Period, which sets out all the information required under the Listing Rules, will be sent to the Shareholders and published on the respective websites of the Stock Exchange and the Company in accordance with the requirements under the Listing Rules in due course.

ACKNOWLEDGEMENT

The Board would like to express its sincere gratitude to the Shareholders, the Group's management team, employees, business partners and customers for their support and contribution to the Group.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings. These expressions and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as the Company.

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	Board of directors
“China” or “PRC”	the People’s Republic of China, for the purpose of this announcement and for geographical reference only, excluding Hong Kong and Macao Special Administrative Regions of the PRC and Taiwan
“Company”	Beijing Fourth Paradigm Technology Co., Ltd. (北京第四範式智能技術股份有限公司), a company incorporated in the PRC limited liability on September 17, 2014 and converted into a joint stock limited liability company incorporated in the PRC on July 9, 2021, whose predecessor was 北京第四範式智能技術有限公司
“Director(s)”	the director(s) of the Company
“Dr. Dai”	Dr. Dai Wenyuan (戴文淵), the chairman of the Board, an executive Director, chief executive officer and one of our Controlling Shareholders
“Global Offering”	the global offering of the H Shares in Hong Kong as described in the Prospectus
“Group,” “our Group,” “we” or “us”	our Company and our subsidiaries (or our Company and any one or more of our subsidiaries, as the context may require)
“H Share(s)”	overseas listed foreign share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which is/are to be subscribed for and traded in HK dollars and to be listed on the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

“IFRS”	the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by International Accounting Standards Board and the International Accounting Standards and interpretations issued by the International Accounting Standards Committee
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	September 28, 2023, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with Growth Enterprise Market of the Hong Kong Stock Exchange
“Prospectus”	the prospectus dated September 18, 2023 issued by the Company in connection with Hong Kong public offering under the Global Offering
“Reporting Period”	the year ended December 31, 2023
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of our Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of shares
“Subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“%”	percentage

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including our subsidiary) have been included in this announcement in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

Any discrepancies in the sum of individual figures and total figures in the tables in this announcement are due to rounding.

GLOSSARY OF TECHNICAL TERMS

“AI”	artificial intelligence, simulation of human intelligence by machines
“AIGS”	AI-Generated Software
“AIoT”	artificial intelligence of things, the combination of the connectivity from the IoT with data-driven knowledge obtained from AI
“algorithm”	a procedure of formula for solving a problem, based on conducting a sequence of specified actions
“CAGR”	compound annual growth rate
“cloud”	the computers and connections that support cloud computing
“cloud computing”	the practice of storing computer data and programs on multiple servers that can be accessed through the internet
“enterprise AI”	AI technologies and software applied by enterprises to address their business needs and drive their digital and automation transformation
“IDC”	International Data Corporation
“IoT”	Internet of Things
“IT”	information technology
“machine learning”	the scientific study of algorithms and statistical models that computer systems use to effectively perform specific tasks without being explicitly programmed to do so

“platform-centric” a type of AI solutions that come with an AI development platform in addition to AI applications and underlying computing infrastructure

“R&D” research and development

By order of the Board
Beijing Fourth Paradigm Technology Co., Ltd.
北京第四範式智能技術股份有限公司
Dr. Dai Wenyuan
Chairman and Executive Director

Hong Kong, March 20, 2024

As at the date of this announcement, the executive Directors are Dr. Dai Wenyuan, Mr. Chen Yuqiang and Mr. Yu Zhonghao; the non-executive Directors are Dr. Yang Qiang, Mr. Dou Shuai and Mr. Zhang Jing; and the independent non-executive Directors are Mr. Li Jianbin, Mr. Liu Chijin and Ms. Ke Yele.