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QINGDAO AIINNOVATION TECHNOLOGY GROUP CO., LTD*

青島創新奇智科技集團股份有限公司

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

(Stock Code: 2121)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board of directors (the “**Board**”) of Qingdao AlInnovation Technology Group Co., Ltd (the “**Company**”, and its subsidiaries, the “**Group**”) is pleased to announce the annual results of the Group for the fiscal year ended 31 December 2021 (the “**Reporting Period**”), together with the comparative figures for the last fiscal year (the fiscal year ended 31 December 2020).

FINANCIAL HIGHLIGHTS

	Period from	Year ended 31 December		
	6 February to 31 December	2019	2020	2021
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	37,208	229,141	462,324	861,168
Gross profit	23,385	71,613	134,621	267,241
Operating loss	(69,537)	(221,956)	(286,801)	(622,841)
Loss for the period/year	(71,174)	(248,359)	(360,635)	(635,124)
Add:				
Share-based payment expenses	23,339	53,230	133,750	406,967
Finance cost of financial liabilities of redeemable shares	2,457	35,158	82,406	34,877
Listing expenses	—	—	—	51,500
Adjusted net loss (Unaudited)	(45,378)	(159,971)	(144,479)	(141,780)
		As at 31 December		
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	158,204	854,514	1,395,806	2,264,907
Cash and cash equivalent	74,396	605,631	1,042,502	1,553,150
Total liabilities	135,185	1,017,680	1,909,833	469,599

KA base revenue value

	Period from	Year ended 31 December		
	6 February to 31 December	2019	2020	2021
Number of premium customers	—	13	23	42
Premium customer revenue (RMB in thousands)	—	114,163	381,255	798,661
Premium customer dollar based repeating rate	n.a.	n.a.	112.7%	102.5%
Total number of customers	50	150	157	159
Total revenue (RMB in thousands)	37,208	229,141	462,324	861,168

Revenue-By Type of Products/Services

	Period from		Year ended 31 December					
	6 February to 31 December		2019		2020		2021	
	amount	%	amount	%	amount	%	amount	%
	RMB'000		RMB'000		RMB'000		RMB'000	
Sales of products and solutions	36,545	98.2	224,408	97.9	451,726	97.7	846,411	98.3
Services of data solutions	663	1.8	4,733	2.1	10,598	2.3	14,757	1.7
Total	37,208	100.0	229,141	100.0	462,324	100.0	861,168	100.0

Revenue-By Customer Type

	Period from		Year ended 31 December					
	6 February to 31 December		2019		2020		2021	
	amount	%	amount	%	amount	%	amount	%
	RMB'000		RMB'000		RMB'000		RMB'000	
System integrators	5,705	15.3	136,407	59.5	351,428	76.0	643,831	74.8
End-users	31,503	84.7	92,734	40.5	110,896	24.0	217,337	25.2
Total	37,208	100.0	229,141	100.0	462,324	100.0	861,168	100.0

Revenue-By Industry Verticals

	Period from 6 February to 31 December		Year ended 31 December					
	2018 <i>amount</i> <i>RMB'000</i>	%	2019 <i>amount</i> <i>RMB'000</i>	%	2020 <i>amount</i> <i>RMB'000</i>	%	2021 <i>amount</i> <i>RMB'000</i>	%
Manufacturing	13,636	36.6	78,429	34.2	193,098	41.8	449,000	52.2
Automotive equipment	238	0.6	1,956	0.9	2,382	0.5	142,656	16.6
High-tech/3C	4,140	11.1	17,491	7.6	36,504	7.9	88,343	10.3
OLED panel manufacturing	—	0.0	—	0.0	36,527	7.9	60,096	7.0
Iron and steel metallurgy	—	0.0	5,165	2.3	31,418	6.8	44,765	5.2
Energy and power	—	0.0	—	0.0	19,240	4.2	35,780	4.2
Engineering and construction	—	0.0	1,887	0.8	4,044	0.9	5,650	0.7
Others	9,258	24.9	51,930	22.7	62,983	13.6	71,710	8.2
Financial services	5,356	14.4	53,539	23.4	183,520	39.7	274,117	31.8
Banking	—	0.0	17,365	7.6	40,120	8.7	122,868	14.3
Insurance	3,632	9.8	28,736	12.5	117,145	25.3	28,204	3.3
Others	1,724	4.6	7,438	3.2	26,255	5.7	123,045	14.2
Other industries	18,216	49.0	97,173	42.4	85,706	18.5	138,051	16.0
Total	37,208	100.0	229,141	100.0	462,324	100.0	861,168	100.0

BUSINESS OVERVIEW

Part I: Business Review

Since 2021, the global economy has struggled to recover under the repeated impact of the epidemic. In particular, the digital economy driven by the new generation of information technology represented by artificial intelligence has shown strong resilience, and promoted profound changes in traditional production methods and global industrial structure. The Chinese government puts a high value on the integrated development of the digital economy and the real economy. The “Development Plan of the Digital Economy in the 14th Five-Year Plan Period” states that the country aims to raise the proportion of the added value of core digital economy industries in its GDP to 10% by 2025. At present, the focus of the integration of digital technology and industry is expanding from consumption to production. The manufacturing industry with a longer industrial chain and richer application scenarios will become the main battleground of digital applications, bringing broader growth space for the digital economy.

As an artificial intelligence enterprise rooted in China, AInnovation shoulders a corporate mission of “artificial intelligence empowering business value”. Benefiting the dividend of the digital infrastructure era, AInnovation actively grasps the development opportunities from the digitalization, networking and intellectualization of traditional industries, and continuously makes breakthroughs and innovations in the fields of “AI + Manufacturing” and “AI + Financial Services”, thus has achieved major strategic results in the fiscal year 2021.

As of 31 December 2021, the Group's revenue in 2021 reached RMB861.2 million, representing a year-on-year increase of 86.3%; its gross profit reached RMB267.2 million, representing a year-on-year increase of 98.5%; its gross profit margin was 31.0%, representing a year-on-year increase of 1.9 percentage points.

In 2021, we insisted that technological innovation was the primary productive force, and continued to expand the scale of our technology R&D team, enrich and improve the MMOC artificial intelligence platform, and the number of patent applications reached a new high. As of 31 December 2021, the Group had a total of 259 technicians, accounting for 56.7%. We applied for a total of 634 AI-related patents, more than 90% of which were invention patents, and successfully registered 124 patents, and further applied for 112 new patents in 2021.

In 2021, we continued to focus on our business strategy, and consolidated the business layout of "AI + Manufacturing" as our major business, followed by "AI + Financial Services". In the fiscal year 2021, the proportion of revenue from manufacturing industry has increased to 52.2%, and the proportion of revenue from "AI + Manufacturing" and "AI + Financial Services" has reached to 84.0%. Benefited from the promotion of favorable policies such as new infrastructure and the 14th Five-Year Plan for Intelligent Manufacturing Development, we expect to continue to grow in the manufacturing industry.

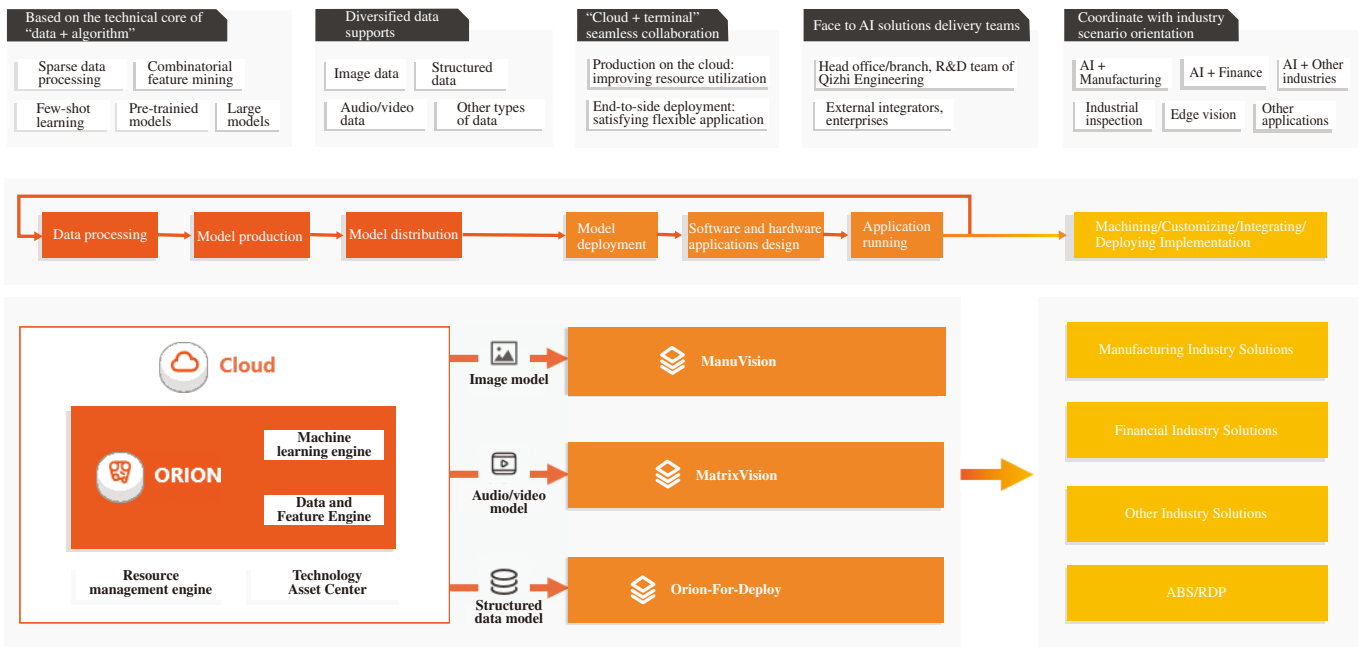
We have provided AI-based products and solutions to 159 customers in 2021. The expanding customer base and increasing customer spending became the key drivers of revenue growth. The number of high-quality customers has increased from 23 in 2020 to 42 in 2021. The repurchase rate of high-quality customers in terms of amount is 102.5%, highlighting our ability to continuously expand and deepen our ability to serve our premium customer base.

Continue to expand MMOC AI platform capabilities

The Company firmly takes the AI platform as its technical base, reuses technology assets, and creates full-stack AI-based solutions for customers. The Company continues to invest in research and development resources, and is committed to building its proprietary AI platform into a development ecosystem. In order to better implement such strategy, the Company has introduced the Cloud platform on top of the original MMO platform in 2021. The Cloud platform offers better infrastructure capabilities for the MMO platform, forming an organic and unified MMOC artificial intelligence platform. Nowadays, the Company is fully promoting its research and development and has made significant progress in the past year.

MMOC is an end-to-end platform that supports innovation, R&D and delivery of AI solutions. Leveraging the technical core of "data + algorithm" and built-in cutting-edge technology cores such as combinatorial feature mining, few-shot learning and pre-trained models, etc., the MMOC platform offers structured and unstructured diversified data supports, and realizes the seamless collaboration of "cloud + terminal" to improve resource utilization and meet flexible application requirements.

Building an AI solution based on the MMOC platform can shorten the pre-sales POC cycle and solution delivery cycle, reduce the skill requirements of delivery personnel, improve the business effect of the solution and the standardization of delivery tools/processes, and accumulate technology assets to achieve cross-project reuse.



Technical architecture of the MMOC platform

MMOC’s powerful platform capabilities have effectively supported the business side and delivery side to win more end-user orders, improve end-to-end delivery capabilities, reduce costs, increase profits and improve customer satisfaction and repurchase rates. The main applicable scenarios of MMOC include: industrial CV applications (for example, surface defect detection), AI-based video analysis projects (for example, security inspection, intelligent monitoring, etc.), AI basic platform construction projects (for example, machine learning platform, feature platform, asset management platform, etc.), data intelligence solution projects (for example, intelligent operation and maintenance of wind power units, intelligent AGV car scheduling, intelligent production and scheduling, etc.).

Continuously focused on business layout

In 2021, based on the two major industries of manufacturing and financial services, we have refined four business themes from the perspective of customer value, namely “manufacturing intelligence, edge vision, intelligent data center, intelligent data governance”, and provided full-stack AI-based products and solutions around each business subject. Each type of AI-based products and solutions can be reduplicated, extended and customized to meet the differentiated requirements from customers.

We continue to expand the lineup of AI-based products and solutions, strengthen the accumulation of asset pools including assets-based solutions, (ABS) and rapid deployed products (RDP) and refine more standardized and modular products. By utilizing these differentiated combinations of reusable and asset-based RDP/ABS, we can achieve the ability to provide long-term service to customer for scenario needs, thereby improving customer stickiness and repurchase rate. With the continuous accumulation and iteration of ABS and RDP on our AI platforms, this approach based on technology assets can ensure the development of solutions that can be delivered in mass production in the shortest time, less engineering and lower cost.

As for market expansion, we continue to implement the “1+N/1*N” market expansion model, which is effectively administrated. Starting from a single application scenario for industry customer, we set a model through the success of the first project, and encourage customers to use AI to solve more problems appeared in application scenarios, thereby creating customer stickiness. We regard this as the “1+N” cooperation. After making successful cases for such customers, we regard this as the “1*N” expansion to achieve network effect of large-scale application in view of the reusability of our technology assets, ABS and RDP, which can be quickly replicated to more customers in the same field. For example, our solution in intelligent molten iron transportation management has been used in multiple large iron enterprises, and our solution in intelligent liquid crystal semiconductor production was also applied by many leading customers in the industry.

AI-based products and solutions

In 2021, we have successfully built the AIInnovation Intelligent Manufacturing System (AIMS) based on customer needs and industry characteristics, which injects AI capabilities into the daily operations of manufacturing companies, so as to help customers achieve intelligent transformation from the two dimensions of operational efficiency and information intelligence. We focus on digging the value of sub-sectors such as iron and steel metallurgy, energy and power, panel semiconductors, automotive equipments, and intelligent data centers, and make a number of classic cases about intelligent transformation in the industry.

In the field of iron and steel metallurgy, we continue to improve the standardization and enrich the functions of the intelligent molten iron transportation solution. We have added a series of functions at safety level to make the core components of such solution meet the high safety level requirements of CRCC/SIL4. In cooperation with a large steel company in northern China, we applied the intelligent molten iron transportation solution to hybrid locomotives for the first time in the industry, and the whole system also passed strict tests in a low temperature environment of -40°C, ensuring that our solution can provide stable output value for customers in different production environments. At the same time, focusing on the existing intelligent molten iron transportation solution, we have developed an iron-steel interface intelligent management and control platform to realize the whole-process of the iron-steel interface, including information collection, data analysis and intelligent management and control, and successfully deployed and operated it in a steel base of one of the largest steel manufacturing groups in China. By implementing the “1+N” strategy of deeply cultivating key customers, we also cooperated deeply with such group to incubate the intelligent metallographic analysis solution on the MMOC platform, which is used for intelligent classification and rating of non-metallic debris in steel, thereby greatly improving the efficiency and accuracy of detection.

In the field of energy and power, we have developed the intelligent wind power operation and maintenance solution in 2021, which is equipped with the ability to combine computer vision algorithms and automated prediction models to conduct multi-dimensional structured analysis of video signals at the wind power plant site, and use the remotely collected IoT data relevant with the operation of equipment to monitor the operation status of the wind farm in real-time, such as detecting abnormal safety events, timely predicting wind turbine equipment that needs maintenance, and providing alerts. Wind farms that use our intelligent wind power operation and maintenance solution are usually located on inaccessible land, or even in seas far away from land. Our intelligent wind power operation and maintenance solution can help customers to conduct remote operation and maintenance of these wind farms more efficiently, and identify potential maintenance needs in

a timely manner without unnecessary downtime. For example, we recently signed an offshore wind power operation and maintenance project with a world-class green energy group in China, which is expected to increase power generation by 1.5–4% for this customer, while reducing operation and maintenance costs by 5–8%.

In the field of panel semiconductors, using the pre-trained model and cutting-edge few-shot learning training algorithm provided by the MMOC platform, the panel glass quality inspection solution we researched and developed can flexibly and quickly adjust its detection algorithm and scheme according to different production lines of customers and the defect patterns that change from time to time, in order to ensure a false detection rate of less than 0.1% and a missed detection rate of less than 0.01%. Such solution has been put into trial operation in several production lines of one of the largest panel glass manufacturers in China and has obtained excellent customer feedback.

In the field of automotive equipments, through the deep integration of machine vision technology and traditional manufacturing platform technology, we have developed a series of solutions in automotive sunroof gluing, the assembling and quality inspection of core components, and vehicle appearance quality inspection, etc., to help customers improve the detection efficiency of key production nodes, reduce the workload of quality inspectors and improve the stability of quality management.

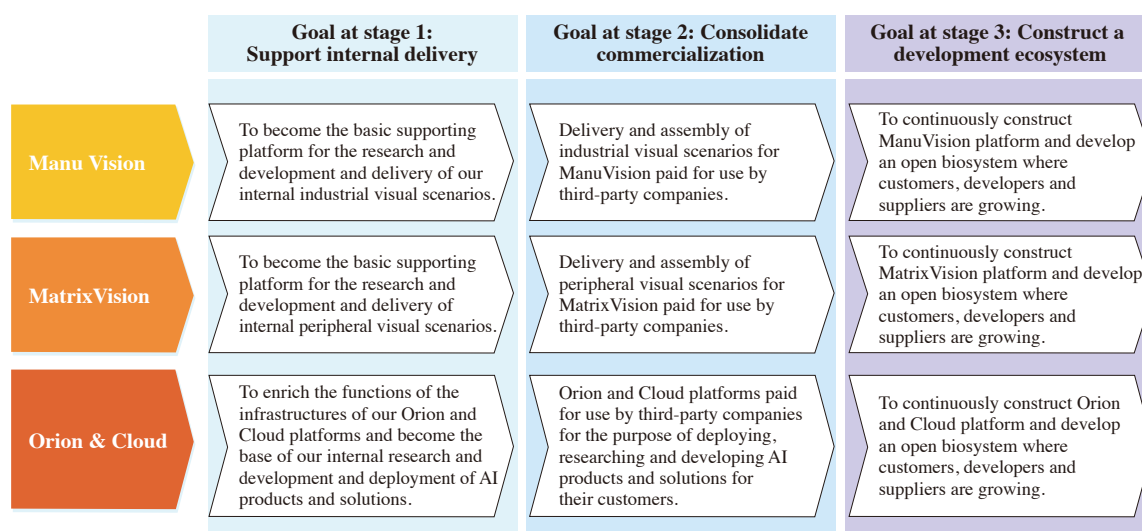
In the financial service industry, we continue to develop data center IT and infrastructure intelligent operation and maintenance solutions, and focus on helping customers improve the operation and maintenance efficiency of data center assets. The intelligent hybrid cloud management solution we have developed helps many financial industry clients including a large insurance company to efficiently manage their computing power resources across multiple heterogeneous clusters. With the intelligent computing power resource optimization technology provided by the Orion platform, we further help customers maximize the use of the computing power resources they manage, so as to serve more computing needs and reduce the overall computing cost. Our proprietary AIOps intelligent operation and maintenance solution uses artificial intelligence technology to analyze the operation logs of computing power resources in customer data centers, so as to detect potential faults in time and perform rapid intelligent root cause analysis of faults, and use the ever-enhancing knowledge graph to automatically recommend the fault solutions for operation and maintenance personnel, which will in turn improve the efficiency and quality of operation and maintenance.

Part II: Future Prospects

To sustain the growth momentum in 2021 and further consolidate our leading position in “AI + Manufacturing” sector, we will take benign sound growth and sustainable operation as our basic guiding ideologies, allocate resources from various aspects such as technologies, products, industries, engineering and commercialization, and promote the coordinated development and organic growth of the Group.

We plan to (i) continuously optimize our AI platforms and strengthen our R&D capabilities; (ii) continuously grow and enrich our solution offerings; (iii) continuously enhance our commercialization capabilities; (iv) continuously broaden our customer base and deepen the cooperation relationships with customers; and (v) continuously pursue strategic investments and acquisitions to strengthen our market position.

As a proprietary AI platform that will be researched, developed and invested by the Company in the long term, MMOC has the three-stage goals set by the Company. At present, the first-stage research and development goal has been completed, and the Company is researching and developing it as planned, with an aim to achieve the second and third-stage goals of MMOC. Specifically, in the coming year, we will continue to increase technological innovation to improve the competitiveness of the MMOC AI platform from the perspectives of both depth and breadth. In particular, we will deepen the thickness of technologies through accumulating more technology assets and increasing asset reuse rates of the platform, and broaden the scope of application through exploring the ecological construction of the MMOC platform, supporting more mainstream hardware and broadening the application scope of the platform. We also plan to improve the development efficiency and end-to-end engineering level of the MMOC platform, and realize the unified management of more AI technology assets such as algorithms, data and models based on the cloud native architecture.



In 2022, we will continue to increase investment in products and solutions in key segments. In manufacturing, we will i) further consolidate operational efficiency related solutions in AIMS, and ii) accelerate the transition from operational efficiency-related solutions to information intelligence related solutions in certain subsectors of manufacturing. In the financial industry, we will deepen data center-related solutions, while incubating enterprise-featured platforms based on our Orion platforms, to help customers to achieve efficient structured management of massive business data and rapid development and iteration of various intelligent applications of data.

AI + Manufacturing

i) Consolidate operational efficiency-related solutions

We believe that increased automation and operational efficiency for the production lines will remain a major demand for manufacturing companies in 2022, and we will also focus on improving the capabilities of AIMS operational efficiency-related solutions and rolling them out to our targeted customer base.

In the iron and steel metallurgy sector, we will continue to refine and develop our standardized modules for the Intelligent Molten Iron Transportation Solution, and increase delivery efficiency and reduce delivery cost to meet the expanding needs of the resolution; further enrich the detection types and detection performance of intelligent metallographic analysis-related solutions,

and improve the standardization degree of product forms, thus gradually forming RDP products with highly standardized delivery. We will realize the 1*N replication of existing customers to other steel manufacturers. In the OLED panel manufacturing sector, we will make batch replication of customers of panel glass defect detection solutions, and continuously enhance the standardization of the solution and further enrich the types of defect detection. In addition, we will explore the application of the MMOC platform to semiconductor industry-related solutions, such as silicon chip detection, to further enrich our portfolio of resolutions in the segment of panel semiconductor. In the automotive equipment sector, we will broaden the application of visual solutions at typical replicable scenarios at more stages of manufacturing process, and realizing the batch customer replication of the relevant resolutions.

ii) Transition to information intelligence-related resolutions

In 2022, we will promote AIMS information intelligent-related solutions among customers by choosing a number of segments and scenarios with a high level of information technologies and a strong customer base.

In the energy and power sector, in response to the national call of “dual carbon”, we will further extend our energy digitalization and intelligent solutions for the whole chain of source-network-load-storage based on the existing Intelligent Wind Power Operation and Maintenance solution. In 2022, we will offer more diversified operational IoT data collection and analysis related to power generation, promoting the development of the power generation sector, including photovoltaic power generation, thermal power. Meanwhile, we will realize the construction of an integrated and high-efficient closed-loop operation and maintenance platform tailor-made for power generation enterprises by leveraging on the powerful data analysis and modeling capabilities of the MMOC platform and the application of digital twinning technology.

In the iron and steel metallurgy sector, we will gradually achieve the best practices of iron and steel interface control employing the demonstration effect from leading enterprises and approach more leading enterprises steel enterprises, thus building the iron and steel interface management and control platform into the “AI brain” of iron and steel enterprises to realizing the whole process, systematic and intelligent management of the complicated iron and steel interface in the past.

In the automotive equipment sector, we will, in response to the national requirement of “intelligent, informationized and digital construction” for manufacturing enterprises, conduct in-depth data analysis on the manufacturing process based on customers’ existing production processes, production techniques, quality inspection methods and manufacturing data, so as to anticipate risks and solve problems more proactively. For example, we will carry out trend analysis on the equipment running status and monitoring results of key components, seek local tuning recommendations and early warning based on future production plans, and effectively make measures for making initiative anticipation, so as to pave the way for customers to digital production and intelligent manufacturing.

AI + Financial Services

With the implementation of the “East-West Transfer of Computing Power (東數西算)”, our data center solutions, incubated by customers in the financial industry, will usher in a broader market opportunity in 2022. In terms of solutions, we will continue to firmly emphasize differences and vigorously develop green computing and intelligent operation and maintenance. Specifically, we will further expand and strengthen the intelligent computing power in terms of green computing and continuously improve the computing tasks supported by the unit computing power of customers, so as to substantially reduce the computing power consumption of data centers and the operating cost of the customer. At the same time, we will build our intelligent energy consumption management solutions for IT equipment and infrastructure of data centers to improve power consumption efficiency of data centers, improving the power efficiency in data centers. As for smart operation, we will continue to increase our investment in AIOps solutions to ensure high availability of data centers while demonstrating that customers can reduce the cost of data center IT and infrastructure operations.

Being relatively developed in term of informatization, the banking business has universal rigid requirements for data intelligence applications. In 2022, we will incubate an enterprise-featured platform for data intelligence applications by based on our Orion Distributed Machine Learning Platform. The platform is capable of extracting data features related to the intelligent application of various typical data from massive data from different business systems and facilitating the systematic management. Leveraging the proprietary automated machine learning and rapid deployment technologies of our Orion platform, customers can quickly build intelligent applications by selecting data features, training prediction models and deploying them with one click for different business scenarios. We will first build a scenario-oriented enterprise-featured platform for the banking industry, and will gradually expand to other sectors with demand for rich data intelligence application in the future.

Fulfill more corporate social responsibilities

In the coming year, we will also assume more corporate social responsibility. We will actively promote energy conservation and emission reduction, industrial upgrading, and epidemic prevention and control by developing our AI products and resolutions, further promote the application of AI technologies in factories, workshops, and production lines, so as to reduce the labour intensity, improve working environment and safety, and increase the workers’ welfare.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are a fast-growing enterprise AI solutions provider in China. Leveraging our research capabilities in deep learning, we have developed proprietary computer vision and machine learning AI technologies to empower businesses in China. Through integration of AI technologies with our industry insights, powered by our proprietary MMOC platforms (ManuVision, MatrixVision and Orion), we offer full-stack AI-based products and solutions to enable businesses to reduce costs, improve operational efficiency, and optimize decision-making.

In four years since our inception, we have established our brand in enterprise AI solutions industry in China. We focus on developing and delivering AI-based products and solutions for the manufacturing and financial services industries in China. We were the only Chinese company to be listed as an “Example Vendor” in machine vision and “Cool Vendor” in AI for computer vision by Gartner in 2021.

Revenue

Our revenue increased by 86.3% from RMB462.3 million in the fiscal year ended 31 December 2020 to RMB861.2 million in the fiscal year ended 31 December 2021. The increase was primarily attributable to the increase in revenue realized from manufacturing industry and financial services industry, and the increase in number of premium customers and the average revenue per premium customer.

Manufacturing industry. Revenue from manufacturing industry increased by 132.5% from RMB193.1 million in the fiscal year ended 31 December 2020 to RMB449.0 million in the fiscal year ended 31 December 2021.

Financial services industry. Revenue from financial services industry increased by 49.4% from RMB183.5 million in the fiscal year ended 31 December 2020 to RMB274.1 million in the fiscal year ended 31 December 2021.

We define the customer with revenue contribution of RMB4.5 million or more in a fiscal year as a premium customer. The number of premium customers increased from 23 in the fiscal year ended 31 December 2020 to 42 in the fiscal year ended 31 December 2021, with the average revenue per premium customer increased from RMB16.6 million in the fiscal year ended 31 December 2020 to RMB19.0 million in the fiscal year ended 31 December 2021.

Cost of Sales

Our cost of sales increased by 81.2% from RMB327.7 million in the fiscal year ended 31 December 2020 to RMB593.9 million in the fiscal year ended 31 December 2021. The increase was caused by business expansion in manufacturing industry and financial services industry in the fiscal year ended 31 December 2021.

Manufacturing industry. Cost of sales from manufacturing industry increased by 124.1% from RMB128.1 million in the fiscal year ended 31 December 2020 to RMB287.0 million in the fiscal year ended 31 December 2021, primarily due to the increase of the revenue from manufacturing industry from RMB193.1 million in the fiscal year ended 31 December 2020 to RMB449.0 million in the fiscal year ended 31 December 2021.

Financial services industry. Cost of sales from financial services industry increased by 51.0% from RMB132.3 million in the fiscal year ended 31 December 2020 to RMB199.8 million in the fiscal year ended 31 December 2021, primarily due to the increase of the revenue from financial services industry from RMB183.5 million in the fiscal year ended 31 December 2020 to RMB274.1 million in the fiscal year ended 31 December 2021.

Gross Profit and Gross Margin

As a result of foregoing, our overall gross profit in the fiscal years ended 31 December 2020 and 31 December 2021 were RMB134.6 million and RMB267.2 million respectively. Our overall gross margin was 29.1% and 31.0% respectively. This was primarily attributable to (i) economies of scales; (ii) increased pricing power; (iii) more standardized products and solutions with more technology assets accumulated upon our platforms.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 92.0% from RMB60.4 million in the fiscal year ended 31 December 2020 to RMB116.0 million in the fiscal year ended 31 December 2021, primarily due to (i) the expansion of the business; (ii) the increase in share-based payments engaged in selling and distribution expenses increased from RMB8.4 million to RMB45.6 million.

Selling and distribution expenses as percentages of revenue in the fiscal year ended 31 December 2020 and the fiscal year ended 31 December 2021 remained relatively stable, with 13.1% and 13.5% respectively.

Selling and distribution expenses excluding share-based payments as a percentage of revenue declined from 11.3% in the fiscal year ended 31 December 2020 to 8.2% in the fiscal year ended 31 December 2021, as we grew our revenue at a much faster rate.

General and Administrative Expenses

Our general and administrative expenses increased by 130.2% from RMB195.2 million in the fiscal year ended 31 December 2020 to RMB449.4 million in the fiscal year ended 31 December 2021, primarily due to (i) the increase in share-based payments engaged in general and administrative expenses increased from RMB101.1 million to RMB290.5 million; (ii) listing fee was 0 in the fiscal year ended 31 December 2020 and RMB51.5 million in the fiscal year ended 31 December 2021.

General and administrative expenses as a percentage of revenue increased from 42.2% in the fiscal year ended 31 December 2020 to 52.2% in the fiscal year ended 31 December 2021.

General and administrative expenses excluding share-based payments and listing fee as a percentage of revenue declined from 20.4% in the fiscal year ended 31 December 2020 to 12.5% in the fiscal year ended 31 December 2021, as we grew our revenue at a much faster rate.

Research and Development Expenses

Our research and development expenses increased by 80.5% from RMB181.5 million in the fiscal year ended 31 December 2020 to RMB327.7 million in the fiscal year ended 31 December 2021, primarily due to the increase of subcontracting costs from RMB54.9 million in the fiscal year ended 31 December 2020 to RMB175.2 million in the fiscal year ended 31 December 2021.

Research and development expenses as percentages of revenue in the fiscal year ended 31 December 2020 and the fiscal year ended 31 December 2021 remained relatively stable, with 39.3% and 38.1% respectively.

Research and development expenses excluding share-based payments as a percentage of revenue declined from 34.0% in the fiscal year ended 31 December 2020 to 29.8% in the fiscal year ended 31 December 2021, as we grew our revenue at a much faster rate.

Net Impairment Losses on Financial Assets

We had a net impairment loss of RMB24.1 million for the year ended 31 December 2021 compared to a net impairment loss of RMB19.0 million for the year ended 31 December 2020, primarily because we increased our provision on the trade receivables increased in the Reporting Period.

Other Income

Other income consists primarily of other government grants, which mainly relate to financial assistance from local governments in China.

We recorded other income of RMB28.1 million for the year ended 31 December 2021, as compared to that of RMB35.0 million for the year ended 31 December 2020, primarily due to reduction in the government grants.

Other Losses, Net

Our other losses, net primarily consist of (i) interests received on investments in financial assets at fair value through profit or loss, (ii) foreign exchange losses, and (iii) donation.

Our other losses, net recorded RMB1.0 million for the year ended 31 December 2021, as compared to that of RMB0.3 million for the year ended 31 December 2020, primarily due to increasing in the interests received on FVPL and the foreign exchange losses.

Operating Loss

As a result of the foregoing, we had an operating loss of RMB622.8 million for the year ended 31 December 2021, compared to an operating loss of RMB286.8 million for the year ended 31 December 2020, primarily due to an increase in share-based payment expenses and listing expenses.

Finance Income

Our finance income increased from RMB9.4 million for the year ended 31 December 2020 to RMB24.0 million for the year ended 31 December 2021, primarily due to an increase in interest income from bank deposits.

Finance Costs

Our finance costs are primarily comprised of (i) finance costs of financial liabilities of redeemable shares, and (ii) interest expenses on our lease liabilities.

Our finance costs reduced from RMB83.1 million for the year ended 31 December 2020 to RMB36.1 for the year ended 31 December 2021, primarily due to a decrease in finance costs of financial liabilities of redeemable shares.

Loss for the Year

As a result of the foregoing, we reported a loss of approximately RMB635.1 million for the year ended 31 December 2021, compared to the loss of approximately RMB360.6 million for the year ended 31 December 2020.

Non-IFRS Measures

Adjusted Net Loss

We define adjusted net loss as net loss for the year adjusted by adding back finance costs of financial liabilities of redeemable shares, share-based payment expenses and listing expenses.

The following table reconciles our adjusted net loss for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which are net loss or income for the years.

	Year ended 31 December	
	2020	2021
	RMB'000	RMB'000
Reconciliation of net loss to adjusted net loss:		
Loss for the year	(360,635)	(635,124)
Add:		
Share-based payment expenses	133,750	406,967
Finance cost of financial liabilities of redeemable shares	82,406	34,877
Listing expenses	—	51,500
Adjusted net loss	<u>(144,479)</u>	<u>(141,780)</u>

Liquidity and Capital Resources

Cash and Cash Equivalents

As at 31 December 2021, cash and cash equivalents of the Group was approximately RMB1,553.2 million, compared to approximately RMB1,042.5 million as at 31 December 2020. The increase was mainly due to the proceeds we received from our pre-IPO round fund raise. Most of the cash and cash equivalents of the Group were denominated in RMB.

Gearing Ratio

The Group monitors capital on basis of the gearing ratio, which is calculated as net debt divided by total equity/deficits. Net debt is calculated as total liabilities which are considered as borrowings less cash and cash equivalents. As of 31 December 2021 and 2020 the Group has a net cash position and the gearing ratio was not applicable.

Material Acquisitions and Disposals

The Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies for the fiscal year ended 31 December 2021.

Future Plans for Material Investments or Capital Asset

As at 31 December 2021, the Group did not have detailed future plans for material investments or capital assets.

Foreign Exchange Exposure

During the fiscal year ended 31 December 2021, the Group mainly operated in China with most of the transactions settled in RMB. The functional currency of our Company and the subsidiaries are RMB. Our management considers that the business is not exposed to any significant foreign exchange risk as each of the group entities did not hold significant assets and liabilities denominated in a currency other than its functional currency. As at 31 December 2021, we had currency translation loss of RMB5.8 million, as compared with nil as at 31 December 2020. We did not hedge against any fluctuation in foreign currency during the fiscal years ended 31 December 2021 and 2020.

Pledge of Assets

As at 31 December 2021, the Group has no material pledge of assets.

Borrowing

As at 31 December 2021, borrowings of the Group were nil (31 December 2020: nil).

Contingent Liabilities

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

Subsequent Event

Listing on the Main Board of the Stock Exchange

On 27 January 2022, the Company completed its listing on the Stock Exchange. 44,744,400 shares of the Company with nominal value of RMB1.00 each were issued at an offer price of HK\$26.3 per share for a total consideration, net of listing expenses, amounting to HK\$1,070.1 million (equivalent to RMB874.4 million).

Change to the Use of Proceeds

To increase the efficiency in use of capital, the Company intends to extend the use of proceeds as set out in the Prospectus by amending “To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, we only intend to place such proceeds in short-term interest-bearing deposits with licensed banks or authorized financial institutions in Hong Kong or China.” to “To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, we intend to place such proceeds in short-term interest-bearing deposits with licensed banks or authorized financial institutions in Hong Kong or China, or use it to purchase wealth management products issued by licensed banks or other licensed institutions in Hong Kong or China, including but without limitation to structured deposits, treasury bonds, central bank bills, bond repurchase, money funds and bond funds.”

OTHER INFORMATION

Dividend

The Board does not recommend any final dividend for the year ended 31 December 2021.

Purchase, Sale or Redemption of Own Securities

There was no purchase, sale or redemption of the Company’s listed securities by the Company and the Group during the Reporting Period.

Corporate Governance Practices

The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders of the Company, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 of the Listing Rules as the basis of the Company’s corporate governance practices. The Company is committed to the view that the Board should include a balanced composition of executive Directors and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

As the Company was listed on 27 January 2022, it was not required to comply with the CG Code during the year ended 31 December 2021. The Company has complied with all applicable code provisions set out in the CG Code throughout the period from the Listing Date up to the date of this announcement.

The Company has also put in place certain recommended best practices as set out in the CG Code.

Model Code for Securities Transactions by Directors, Supervisors and Employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules, to regulate all dealings by Directors, Supervisors and relevant employees of securities in the Company and other matters covered by the Model Code since the Listing Date.

As the Company was listed on 27 January 2022, it was not required to comply with the Model Code during the year ended 31 December 2021.

All Directors, Supervisors and relevant employees, having made specific enquiries, confirmed that they have been in compliance with the Model Code during the period from the Listing Date up to the date of this announcement.

The Company has also adopted the model code for securities transactions by employees who may hold price-sensitive information of the Company that is not publicly available. The Company was not aware of any incompliance with the Model Code by any employee during the period from the Listing Date up to the date of this announcement.

Scope of Work of the Auditor

The figures in respect of the Group’s consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the PricewaterhouseCoopers on this announcement.

Audit Committee

The Audit Committee has reviewed the annual results of the Group for 2021 and the audited consolidated financial statements for the year ended 31 December 2021 which was prepared in accordance with the International Financial Reporting Standards.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ainnovation.com). The annual report of the Group for the financial year ended 31 December 2021 will be dispatched to the Company’s shareholders and made available for review on the same websites in due course.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

		Year ended 31 December	
	Note	2021	2020
		RMB'000	RMB'000
Revenue	4	861,168	462,324
Cost of sales	7	<u>(593,927)</u>	<u>(327,703)</u>
Gross profit		267,241	134,621
Selling and distribution expenses	7	(115,975)	(60,410)
General and administrative expenses	7	(449,375)	(195,186)
Research and development expenses	7	(327,698)	(181,538)
Net impairment losses on financial assets		(24,057)	(18,950)
Other income	5	28,067	34,952
Other losses, net	6	<u>(1,044)</u>	<u>(290)</u>
Operating loss		(622,841)	(286,801)
Finance costs	8	(36,097)	(83,111)
Finance income	8	<u>24,022</u>	<u>9,449</u>
Loss before income tax		(634,916)	(360,463)
Income tax expense	9	<u>(208)</u>	<u>(172)</u>
Loss for the year		(635,124)	(360,635)
Loss for the year attributable to:			
Owners of the Company		(636,599)	(360,999)
Non-controlling interests		<u>1,475</u>	<u>364</u>
		<u>(635,124)</u>	<u>(360,635)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

	<i>Note</i>	Year ended 31 December	
		2021	2020
		RMB'000	RMB'000
Other comprehensive income/(loss), net of tax			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income		<u>22</u>	<u>(712)</u>
Other comprehensive income/(loss) for the year, net of tax		<u>22</u>	<u>(712)</u>
Total comprehensive loss for the year, net of tax		<u>(635,102)</u>	<u>(361,347)</u>
Total comprehensive loss for the year attributable to:			
Owners of the Company		(636,577)	(361,711)
Non-controlling interests		<u>1,475</u>	<u>364</u>
Total comprehensive loss for the year		<u>(635,102)</u>	<u>(361,347)</u>
Basic and diluted loss per share for loss attributable to the owners of the Company (in RMB)	11	<u>(1.43)</u>	<u>(1.49)</u>

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2021

		As at 31 December	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		79,212	57,488
Right-of-use assets		87,072	13,843
Intangible assets		5,672	603
Financial assets at fair value through other comprehensive income		—	106
Other non-current assets		11,810	1,322
Total non-current assets		183,766	73,362
Current assets			
Inventories		71,723	55,310
Prepayments and other receivables	13	54,032	27,329
Trade and notes receivables	12	362,000	189,554
Financial assets at fair value through other comprehensive income		34,333	3,937
Amounts due from related parties		3,206	2,321
Restricted cash		2,697	1,491
Cash and cash equivalents		1,553,150	1,042,502
Total current assets		2,081,141	1,322,444
Total assets		2,264,907	1,395,806
EQUITY/(DEFICITS)			
Equity/(deficits) attributable to owners of the Company			
Share capital		514,560	—
Paid-in capital		—	24,105
Share premium		1,674,871	—
Capital reserve		—	44,741
Other reserves		498,490	89,129
Accumulated losses		(902,873)	(675,887)
		1,785,048	(517,912)
Non-controlling interests		10,260	3,885
Total equity/(deficits)		1,795,308	(514,027)

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2021

	<i>Note</i>	As at 31 December	
		2021	2020
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		78,289	9,457
Financial liabilities of redeemable shares		—	1,659,214
Other non-current liabilities		26,579	48,459
		<u>104,868</u>	<u>1,717,130</u>
Total non-current liabilities		104,868	1,717,130
Current liabilities			
Lease liabilities		9,282	5,233
Trade and notes payables	14	227,719	63,199
Contract liabilities		43,649	38,440
Other payables and accruals		83,873	84,900
Amounts due to related parties		—	931
Current income tax liabilities		208	—
		<u>364,731</u>	<u>192,703</u>
Total current liabilities		364,731	192,703
Total liabilities		469,599	1,909,833
Total equity/(deficits) and liabilities		2,264,907	1,395,806

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to owners of the Company						Non-	Total	
	Share	Paid-in	Share	Capital	Other	Accumulated	controlling	equity/	
	capital	capital	premium	reserve	reserves	losses	interests	(deficits)	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2021	—	24,105	—	44,741	89,129	(675,887)	(517,912)	3,885	(514,027)
(Loss)/profit for the year	—	—	—	—	—	(636,599)	(636,599)	1,475	(635,124)
Other comprehensive income									
— Changes in the fair value of equity investments at fair value through other comprehensive income	—	—	—	—	22	—	22	—	22
Total other comprehensive income for the year	—	—	—	—	22	—	22	—	22
Transactions with owners in their capacity as owners									
— Capital injection	2,035	2,446	734,309	99,689	—	—	838,479	—	838,479
— Obligation related to redeemable rights of shares	—	—	—	(100,000)	—	—	(100,000)	—	(100,000)
— Transfer from financial liabilities at amortised cost due to cancellation of redeemable rights	—	—	—	1,794,091	—	—	1,794,091	—	1,794,091
— Conversion into a joint stock company	26,551	(26,551)	1,426,536	(1,838,521)	—	411,985	—	—	—
— Conversion of share premium into share capital	485,974	—	(485,974)	—	—	—	—	—	—
— Share-based payment expenses	—	—	—	—	406,967	—	406,967	—	406,967
— Capital injection by non-controlling interests	—	—	—	—	—	—	—	4,900	4,900
— Disposal of financial assets at fair value through other comprehensive income	—	—	—	—	2,372	(2,372)	—	—	—
Total transactions with owners in their capacity as owners	514,560	(24,105)	1,674,871	(44,741)	409,339	409,613	2,939,537	4,900	2,944,437
Balance at 31 December 2021	514,560	—	1,674,871	—	498,490	(902,873)	1,785,048	10,260	1,795,308

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to owners of the Company				Total	Non-controlling interests	Total deficits
	Paid-in capital	Capital reserve	Other reserves	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020	<u>20,872</u>	<u>47,208</u>	<u>74,887</u>	<u>(314,888)</u>	<u>(171,921)</u>	<u>8,755</u>	<u>(163,166)</u>
(Loss)/profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(360,999)</u>	<u>(360,999)</u>	<u>364</u>	<u>(360,635)</u>
Other comprehensive losses							
— Changes in the fair value of equity investments at fair value through other comprehensive income	<u>—</u>	<u>—</u>	<u>(712)</u>	<u>—</u>	<u>(712)</u>	<u>—</u>	<u>(712)</u>
Total other comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>(712)</u>	<u>—</u>	<u>(712)</u>	<u>—</u>	<u>(712)</u>
Transactions with owners in their capacity as owners							
— Capital injection	3,233	747,533	—	—	750,766	—	750,766
— Obligation related to redeemable rights of shares	—	(750,000)	—	—	(750,000)	—	(750,000)
— Share-based payment expenses	—	—	133,750	—	133,750	—	133,750
— Transactions with non-controlling interests	<u>—</u>	<u>—</u>	<u>(118,796)</u>	<u>—</u>	<u>(118,796)</u>	<u>(5,234)</u>	<u>(124,030)</u>
Total transactions with owners in their capacity as owners	<u>3,233</u>	<u>(2,467)</u>	<u>14,954</u>	<u>—</u>	<u>15,720</u>	<u>(5,234)</u>	<u>10,486</u>
Balance at 31 December 2020	<u><u>24,105</u></u>	<u><u>44,741</u></u>	<u><u>89,129</u></u>	<u><u>(675,887)</u></u>	<u><u>(517,912)</u></u>	<u><u>3,885</u></u>	<u><u>(514,027)</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cash flows from operating activities		
Cash used in operations	(258,791)	(182,643)
Interest received	24,022	9,449
Income taxes paid	(2,004)	(1,011)
	<u>(236,773)</u>	<u>(174,205)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Payments of property, plant and equipment and intangible assets	(52,000)	(18,507)
Proceeds from disposal of financial assets at fair value through profit or loss	1,100,000	—
Payments of financial assets at fair value through profit or loss	(1,100,000)	—
Payments of financial assets at fair value through other comprehensive income	—	(700)
Proceeds from disposal of financial assets at fair value through other comprehensive income	128	(26)
Interest received on financial assets at fair value through profit or loss	4,883	—
	<u>(46,989)</u>	<u>(19,233)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Capital injection from shareholders	838,479	750,766
Capital injection of subsidiaries from non-controlling interests	4,900	—
Acquisition of non-controlling interests	(22,400)	(101,630)
Principal elements of lease payments	(10,828)	(6,832)
Payment for listing expenses	(9,991)	—
Payments of financing service expenses	—	(11,995)
	<u>800,160</u>	<u>630,309</u>
Net cash generated from financing activities		
Net increase in cash and cash equivalents	516,398	436,871
Cash and cash equivalents at beginning of the year	1,042,502	605,631
Exchange losses on cash and cash equivalents	(5,750)	—
	<u>1,553,150</u>	<u>1,042,502</u>
Cash and cash equivalents at the end of the year		

NOTES TO THE FINANCIAL STATEMENTS

1 General information of the Group

Qingdao AInnovation Technology Group Co., Ltd. (the “**Company**”, formerly known as “**Shenzhen AInnovation Technology Co., Ltd.**”) was incorporated in the People’s Republic of China (the “**PRC**”) on 6 February 2018 as a limited liability company. On 19 May 2021, the Company changed the type of enterprise from a limited liability company to a joint stock company. The address of the Company’s registered office is Room 501, Block A, Haier International Plaza, No. 939 Zhenwu Road, Economic Development Zone, Jimo District, Qingdao, Shandong, PRC.

The Company and its subsidiaries (collectively, the “**Group**”) conduct research and development and sells Artificial Intelligence based software and hardware technology solutions in China.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 27 January 2022.

These consolidated financial statements are presented in Renminbi (“**RMB**”) unless otherwise stated.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities that are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements will be disclosed in the 2021 annual report.

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
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The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the annual reporting period commencing from 1 January 2021 and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The following new standards, amendments to standards and interpretations have been issued but are not effective and have not been early adopted by the Group:

Standards	Key requirements	Effective for accounting periods beginning on or after
Annual Improvements to IFRS Standards 2018–2020		1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 17 and IFRS 9	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 January 2023
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 Group has already commenced an assessment of the impact of these new or revised standards and amendments, which are relevant to the Group's operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective. The Group does not expect to adopt these new standards and amendments until their effective dates.

3 Segment information

The executive director of the Company has been identified as the chief operating decision-maker of the Group who reviews the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The revenue of the Group are primarily derived from artificial intelligence service, so no operating segment information is presented.

No geographical segment information is presented as all the revenue and operating losses of the Group are derived within PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

Revenue from customers contributing over 10% of the total revenue of the Group in 2021 and 2020 is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Customer A	*	53,645
Customer B	87,545	*

* Less than 10%

4 Revenue

An analysis of revenue is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Point in time		
— Sales of products and solutions	846,411	451,726
Over time		
— Services of data solutions	14,757	10,598
	<u>861,168</u>	<u>462,324</u>

5 Other income

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants (i)	<u>28,067</u>	<u>34,952</u>

(i) Government grants provided to the Group mainly related to financial subsidy from the local government in the PRC.

6 Other losses, net

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interests received on FVPL	4,883	—
Foreign exchange losses	(5,750)	—
Donation	(400)	(277)
Others	223	(13)
	<u>223</u>	<u>(13)</u>
	<u>(1,044)</u>	<u>(290)</u>

7 Expenses by nature

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	590,937	311,710
Material costs	422,807	228,160
Subcontracting costs	327,763	146,621
Listing expenses	51,500	—
Depreciation of property, plant and equipment	24,223	15,801
Service fee	10,814	19,368
Depreciation of right-of-use assets	9,260	6,834
Marketing expenses	8,321	7,984
Rental and property management expenses	7,452	3,111
Travelling expenses	6,950	8,047
Recruiting and training expenses	3,505	2,539
Amortisation of intangible assets	700	207
Auditors' remuneration — audit services	3,000	212
Other expenses	19,743	14,243
	<u>19,743</u>	<u>14,243</u>
	<u>1,486,975</u>	<u>764,837</u>

8 Finance costs and income

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
Finance costs of financial liabilities of redeemable shares	(34,877)	(82,406)
Interest expenses on lease liabilities	(1,220)	(705)
	<u>(1,220)</u>	<u>(705)</u>
Total finance costs	(36,097)	(83,111)
Finance income:		
Interest income from bank deposits	24,022	9,449
	<u>24,022</u>	<u>9,449</u>
Finance costs and income — net	<u>(12,075)</u>	<u>(73,662)</u>

9 Income tax expense

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current tax on profits for the year	208	172
Deferred income tax	—	—
	<hr/>	<hr/>
Income tax expense	<u>208</u>	<u>172</u>

The difference between the actual income tax expense charged to the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rates to loss before taxation can be reconciled as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss before taxation	<u>(634,916)</u>	<u>(360,463)</u>
Tax calculated at tax rates applicable to profits of the respective subsidiaries	(158,729)	(90,116)
Preferential tax of certain subsidiaries	14,283	12,606
Expenses not deductible for tax purposes	107,839	53,632
Super deductions from research and development expenditures	(19,282)	(11,969)
Utilisation of the tax losses unrecognized previously	(1,079)	—
Temporary difference for which no deferred tax asset was recognized	14,674	4,891
Tax losses for which no deferred tax asset was recognized	<u>42,502</u>	<u>31,128</u>
	<hr/>	<hr/>
Income tax expense	<u>208</u>	<u>172</u>

The Group's subsidiaries in the PRC are subject to the PRC corporate income tax at a rate of 25% on estimated assessable profits.

AInnovation (Beijing) Technology Co., Ltd. had been recognized as the High New Tech Enterprises since 2019. AInnovation (Guangzhou) Technology Co., Ltd., AInnovation (Hefei) Technology Co., Ltd. and AInnovation (Chongqing) Technology Co., Ltd. had been recognized as the High New Tech Enterprises since 2020. AInnovation (Qingdao) Technology Co., Ltd. had been recognized as the High New Tech Enterprises since 2021. According to the tax incentives of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years commencing from the years when these companies are recognized as High New Tech Enterprises.

10 Dividends

No dividend has been paid or declared by the Company or companies comprising the Group during the reporting periods.

11 Loss per share

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to the owners of the Company by the weighted average number of shares in issue or deemed to be in issue during the reporting periods. The weighted average number of ordinary shares deemed in issue before the conversion into a joint stock company was determined as assuming that:

- (1) The Redeemable Shares were treated as treasury share before the cancellation of redeemable rights. So, the related capital was deducted from the paid-in capital before the cancellation of redeemable rights for the purpose of calculating the number of ordinary shares deemed in issue;
- (2) The remaining paid-in capital had been fully converted into number of ordinary shares deemed in issue at the same conversion ratio of 1:1 as upon transformation into joint stock company;
- (3) The above number of ordinary shares had been further retrospectively adjusted for the effect of shares conversion from share premium into share capital at the conversion ratio of 1:17.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss from continuing operation attributable to the owners of the Company	<u>(636,599)</u>	<u>(360,999)</u>
Weighted average number of ordinary shares in issue ('000)	444,903	241,859
Basic loss per share (RMB)	<u>(1.43)</u>	<u>(1.49)</u>

The calculation of weighted average number of ordinary shares in issue is issued as below:

	Year ended 31 December	
	2021	2020
	'000	'000
Weighted average amount of paid-in capital/share capital	27,224	21,459
Less: Weighted average amount of Redeemable Shares in paid-in capital before the cancellation of redeemable rights	<u>(2,507)</u>	<u>(8,022)</u>
Weighted average amount of remaining paid-in capital/share capital	24,717	13,437
Weighted average number of ordinary shares in issue at the conversion ratio of 1:1	24,717	13,437
Add: Shares conversion from share premium into share capital at the conversion ratio of 1:17	<u>420,186</u>	<u>228,422</u>
Weighted average number of ordinary shares in issue ('000)	<u>444,903</u>	<u>241,859</u>

(b) Diluted loss per share

As the Group incurred losses for the reporting periods, the potential ordinary shares 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 reporting periods are the same as basic loss per share of the respective year.

12 Trade and notes receivables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Accounts receivable	406,271	213,487
Less: Provision for impairment	(49,150)	(25,144)
	<u>357,121</u>	<u>188,343</u>
Notes receivables	4,879	1,211
	<u>362,000</u>	<u>189,554</u>

As at 31 December 2021 and 2020, notes receivables were bank acceptance notes aged less than six months.

The majority of the Group's receivables are with credit term mostly from 30 days to 180 days. As at 31 December 2021 and 2020, the aging analysis of the trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Accounts receivable		
Less than 3 months	255,302	123,602
3 months to 6 months	54,881	39,531
6 months to 12 months	62,048	33,238
1 year to 2 years	22,979	17,116
2 years to 3 years	11,061	—
	<u>406,271</u>	<u>213,487</u>

The movements in provision for impairment of trade receivables are as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	25,144	6,351
Provisions	24,006	18,812
Written-off	—	(19)
	<u>49,150</u>	<u>25,144</u>

For the trade receivables, the Group has assessed the expected credit losses by taking into account historical default rates, existing market conditions and forward-looking information. Based on the assessment, the creation and reversal for impaired receivables have been included in the net impairment losses on financial assets. Amounts charged to allowance account are written off when there is no expectation of receiving the receivables.

The Group's trade receivables were denominated in RMB.

13 Prepayments and other receivables

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Recoverable value-added tax (“VAT”)	18,997	16,722
Prepayments to vendors	22,505	5,422
Deposits	4,663	1,955
Recoverable income tax	2,539	536
Others	5,328	2,694
	<u>54,032</u>	<u>27,329</u>

The carrying amounts of other receivables approximate their fair values.

14 Trade and notes payables

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payable	222,086	62,574
Notes payable	5,633	625
	<u>227,719</u>	<u>63,199</u>

As at 31 December 2021 and 2020, the aging analyses of the trade and notes payables based on transaction date were as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	161,929	47,200
Between 3 months and 6 months	34,947	2,199
Between 6 months and 1 year	28,144	10,940
Between 1 year and 2 years	2,465	2,860
Between 2 year and 3 years	234	—
	<u>227,719</u>	<u>63,199</u>

DEFINITIONS

“Audit Committee”	audit committee of the Board
“Board” or “Board of Directors”	the board of directors of our Company
“China” or “PRC”	the People’s Republic of China, but for the purpose of this announcement only, do not apply to Hong Kong, the Special Administrative Region of Macau and Taiwan
“Company” or “our Company” or “the Company” or “AIInnovation”	Qingdao AIInnovation Technology Group Co., Ltd (青島創新奇智科技集團股份有限公司), which was established with limited liabilities under the laws of the PRC on 6 February 2018 and converted into a joint stock limited company on 19 May 2021
“Director(s)”	the director(s) of our Company
“Group” or “our Group” or “we” or “us”	our Company and our subsidiaries
“H Share(s)”	overseas-listed shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are to be traded in Hong Kong dollars and are listed and permitted to be traded on the Stock Exchange
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Listing Date”	the date, on which the H Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange, i.e. 27 January 2022
“Listing Rule”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented, or otherwise modified from time to time
“Prospectus”	the Prospectus of the Company dated 17 January 2022
“RMB” or “Renminbi”	the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of our Company
“%”	percent

By Order of the Board
QINGDAO AINNOVATION TECHNOLOGY GROUP CO., LTD
青島創新奇智科技集團股份有限公司
Xu Hui
Executive Director and Chief Executive Officer

Hong Kong, 30 March 2022

As at the date of this announcement, the Board of the Company comprises Mr. Xu Hui as executive Director, Dr. Kai-Fu Lee, Mr. Wang Hua and Mr. Zhou Wei as non-executive Directors, Mr. Xie Deren, Ms. Ko Wing Yan Samantha and Ms. Jin Keyu as independent non-executive Directors.

* *For identification purposes only*