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SenseTime Group Inc.

商汤集团股份有限公司

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

(Stock Code: 0020)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE SOFTWARE LICENSE AGREEMENT

THE SOFTWARE LICENSE AGREEMENT

On June 8, 2022 (after trading hours), SenseTime HK entered into the Software License Agreement with JCV, pursuant to which SenseTime HK agreed to grant a license and provide certain supporting services to JCV in respect of the Software, which is a computer vision product developed by the Group with various image recognition capabilities. The Software License Agreement will take effect from the signing date.

LISTING RULES IMPLICATIONS

JCV is a wholly-owned subsidiary of SoftBank Corp, which is in turn a 30%-controlled company of SoftBank Group Corp., a company listed on the Tokyo Stock Exchange (TYO stock code: 9984). SoftBank Group Corp. is the holding company of SVF Sense (Singapore) Pte. Ltd., a substantial shareholder of the Company. Accordingly, JCV is an associate of SVF Sense (Singapore) Pte. Ltd. and a connected person of the Company. Therefore, the Software License Agreement and the transactions contemplated thereunder constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps are more than 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Software License Agreement are subject to compliance with the reporting, announcement and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, except in special circumstances where the nature of the transaction requires the agreement to be of a longer duration, the term of an agreement for continuing connected transactions must not exceed three years. As each of the terms of the license and the other supporting services under the Software License Agreement exceeds three years, the Company has appointed Red Sun as its independent financial adviser to explain why a period of longer than three years is necessary and to confirm if it is normal business practice for agreements of these types to be of such duration.

INTRODUCTION

The Board would like to announce that on June 8, 2022 (after trading hours), SenseTime HK entered into the Software License Agreement with JCV, pursuant to which SenseTime HK agreed to grant a license and provide certain supporting services to JCV in respect of the Software. The Software License Agreement will take effect from the signing date.

THE SOFTWARE LICENSE AGREEMENT

The principal terms of the Software License Agreement are as follows:

Date June 8, 2022

Parties (1) SenseTime HK (as the licensor)
(2) JCV (as the licensee)

Subject matter SenseTime HK shall grant a license to JCV in respect of the Software, pursuant to which JCV shall be entitled to (i) use, copy, modify or merge the Software and (ii) publish, distribute, sublicense the modified Software in various markets (being such markets as set out in the Distributorship Agreement). In addition, SenseTime HK shall provide the source code of the Software to JCV in the agreed format. The Software is a computer vision product developed by the Group with various image recognition capabilities.

JCV shall be entitled to attach registered trademarks or logo wholly-owned by it to the products independently developed by it with the Software.

Other supporting services In connection with the grant of license in respect of the Software, SenseTime HK also agreed to provide the following supporting services to JCV:

- (i) Maintenance Services: SenseTime HK shall provide maintenance and technical support services in relation to the Software to JCV for a period of five (5) years commencing from the Acceptance Date.
- (ii) Consulting Services: SenseTime HK shall provide certain trainings and project-specific advice in relation to the Software to JCV upon JCV's request for a period of one (1) year. Such request shall be made within thirty (30) days from the Acceptance Date.

- (iii) Other Services: SenseTime HK shall provide algorithm upgrading services and customization services in relation to the Software to JCV upon request from JCV for a period of five (5) years commencing from the Acceptance Date. In addition, the algorithm upgrading services shall be provided up to only once every two calendar years. SenseTime HK and JCV shall enter into specific service agreements in relation to provision of such services.

Termination rights

SenseTime HK shall be entitled to conduct a review on the license granted under the Software License Agreement every ten (10) years, and shall be entitled to terminate the license granted under the Software License Agreement upon such review by providing at least six (6) months written notice to JCV prior to the date of termination.

Fees and Payment terms

The following fees shall be payable by JCV to SenseTime HK pursuant to the Software License Agreement:

In relation to the license of the Software:

USD5,000,000 (equivalent to approximately HK\$39,250,000), being the license fee, payable in four (4) equal instalments on the Acceptance Date, December 31, 2022, March 31, 2023 and June 30, 2023 respectively.

In relation to the Maintenance Services:

USD1,000,000 (equivalent to approximately HK\$7,850,000), being the annual fee for the Maintenance Services to be paid annually within sixty (60) days before the dates which are one (1) year, two (2) years, three (3) years and four (4) years after the Acceptance Date respectively. The total fees payable by JCV to SenseTime HK for the Maintenance Services shall be USD4,000,000 (equivalent to approximately HK\$31,400,000).

In relation to the Consulting Services:

Upon JCV's request for SenseTime HK to provide the consulting services, the fees for such consulting services will be payable within sixty (60) days upon JCV's receipt of SenseTime HK's invoice for such services. It is currently estimated that the aggregate fees payable by JCV to SenseTime HK for the consulting services will not exceed US\$1,320,000 (equivalent to approximately HK\$10,362,000). If the aggregate fees for the consulting services exceeded such fee estimate, the additional fees and payment terms shall be further agreed between SenseTime HK and JCV by way of specific service agreements or purchase orders.

In relation to the Other Services:

Upon each request from JCV for SenseTime HK to provide algorithm upgrading services, a service fee of US\$2,500,000 (equivalent to approximately HK\$19,625,000) is payable by JCV to SenseTime HK.

Upon JCV's request for SenseTime HK to provide the customization services, SenseTime HK and JCV shall separately agree on the fees for such customization services through arm's length negotiations, taking into account the scope of such customization services as requested by JCV and the prevailing market price for SenseTime HK to provide similar services.

In relation to the license of the Software and the other supporting services under the Software License Agreement, the fees described above were determined after arm's length negotiations between SenseTime HK and JCV, taking into account the prices quoted by third parties for the licensing of similar software and provision of similar services, the prices charged by SenseTime HK for the licensing of similar software and provision of similar services to its other customers, the subject volume, scale, resources required, relevant costs to the Group, and the prevailing market conditions.

Annual Caps

For the five financial years ending on December 31, 2026, the annual amounts payable by JCV to SenseTime HK pursuant to the Software License Agreement are subject to the following Annual Caps:

For the financial year ending	Annual Cap (USD)
December 31, 2022	6,160,000 (equivalent to approximately HK\$48,356,000)
December 31, 2023	2,660,000 (equivalent to approximately HK\$20,881,000)
December 31, 2024	4,500,000 (equivalent to approximately HK\$35,325,000)
December 31, 2025	4,000,000 (equivalent to approximately HK\$31,400,000)
December 31, 2026	4,000,000 (equivalent to approximately HK\$31,400,000)

The Annual Caps have been determined with reference to the fees payable by JCV to SenseTime HK under the Software License Agreement as described above, and the estimated demand for the other supporting services from JCV under the Software License Agreement as described above.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SOFTWARE LICENSE AGREEMENT

The Group is a leading AI software company principally engaged in the research and development of AI technology, sales and development of AI software and AI software-embedded hardware, and related services. The grant of license and provision of related supporting services under the Software License Agreement will allow the Software to reach and access to the extensive customer base in Japan which would in turn accelerate the momentum of the customer network expansion and business development of the Group in the long term, while also facilitating the maintenance of the Group's longstanding and stable relationship with JCV.

Having regard to the above, the Directors (including the independent non-executive Directors) are of the view that the Software License Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and that the terms of the Software License Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are also of the view that the relevant Annual Caps are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

None of the Directors have any material interest in the transactions contemplated under the Software License Agreement (except by virtue of being a director and/or shareholder of the Company or a Group entity) and/or other parties involved in the transaction, and accordingly no Directors were required to abstain from voting on the board resolutions of the Company approving the Software License Agreement and the transactions contemplated thereunder.

OPINION FROM RED SUN

The Company has engaged Red Sun as the independent financial adviser to provide independent advice in respect of the Software License Agreement pursuant to the requirement under Rule 14A.52 of the Listing Rules to explain why a period exceeding three years for each of the license and the other supporting services under the Software License Agreement is required and to confirm it is normal business practice for agreements of these types to be a duration longer than three years.

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

- (i) the Group is a leading AI software company principally engaged in the research and development of AI technology, sales and development of AI software and AI software-embedded hardware, and related services, and as set out in this announcement, SenseTime HK, being the licensor under the Software License Agreement, is a direct wholly-owned subsidiary of the Company principally engaged in the sales of advanced AI software, the sales of AI software-embedded hardware and related services as well as research and development activities in relation to AI technology. JCV, being the licensee under the Software License Agreement, is principally engaged in distribution of AI hardware and software;
- (ii) the Software is a computer vision product developed by the Group with various image recognition capabilities. Pursuant to the Software License Agreement, SenseTime HK shall grant a license to JCV in respect of the Software, pursuant to which JCV shall be entitled to (a) use, copy, modify or merge the Software; and (b) publish, distribute, sublicense the modified Software in various markets as set out in the Distributorship Agreement. In addition, SenseTime HK shall provide the source code of the Software to JCV in the agreed form and JCV shall be entitled to attach registered trademarks or logo wholly-owned by it to the products independently developed by it with the Software. In return, SenseTime HK shall receive USD5,000,000 (equivalent to approximately HK\$39,250,000), being the license fee, in four equal instalments on the Acceptance Date, December 31, 2022, March 31, 2023 and June 30, 2023, respectively. In addition, (a) a total Maintenance Service fee of USD4,000,000 (equivalent to approximately HK\$31,400,000) will be payable by JCV to SenseTime HK for the Maintenance Services annually within sixty (60) days before the dates which are one (1) year, two (2) years, three (3) years and four (4) years after the Acceptance Date respectively; (b) Consulting Service fee currently estimated to be not more than USD1,320,000 (equivalent to approximately HK\$10,362,000) will be payable by JCV to SenseTime HK for the Consulting Service upon JCV's request for such services; (c) a service fee of USD2,500,000 (equivalent to approximately HK\$19,625,000) will be payable by JCV to SenseTime HK for algorithm upgrading services provided by SenseTime HK to JCV upon JCV's request for such services; and (d) customization service fees to be separately agreed by SenseTime HK and JCV taking into account the scope of such customization services and the prevailing market price for SenseTime HK to provide similar services will be payable by JCV to SenseTime HK for such customization services provided by SenseTime HK upon JCV's request. Details of such fees are set out under the paragraph headed "THE SOFTWARE LICENSE AGREEMENT" in this announcement. The total fees payable by JCV to SenseTime HK under the Software License Agreement will be subject to the annual caps as set out under the paragraph headed "THE SOFTWARE LICENSE AGREEMENT" in this announcement;

- (iii) Red Sun noted from its discussion with the management of the Company and the paragraph headed “REASONS FOR AND BENEFITS OF ENTERING INTO THE SOFTWARE LICENSE AGREEMENT” in this announcement that the Company considered the grant of license and provision of related services under the Software License Agreement will allow the Software to reach and access to the extensive customer base in Japan which would in turn accelerate the momentum of the customer network expansion and business development of the Group in the long term, while also facilitating the maintenance of the Group’s longstanding and stable relationship with JCV as JCV has been a distributor of the Company in various countries, including Japan, since August 2019. On this basis, the Company is of the view that the grant of license to JCV in respect of the Software will be in the interests of the Company and its Shareholders as a whole and will not adversely affect the Group’s core competitiveness in the subject markets;
- (iv) as set out in the prospectus of the Company dated December 7, 2021 (as supplemented by the supplemental prospectus of the Company dated December 20, 2021), the Group has been collaborating with JCV under the Distributorship Agreement pursuant to which SenseTime HK grants to JCV the distributorship rights to import, distribute and sell in various markets (including Japan) hardware products and software products and that the Company considered the Software License Agreement to be a furtherance of the existing collaboration arrangement under the Distributorship Agreement for the purpose of, among others, expanding the Group’s presence in Japan without the need to commit significant financial and human resources of the Group;
- (v) Red Sun also noted from the management of the Company that the license fee and the fees for the other supporting services, as detailed under paragraph headed “THE SOFTWARE LICENSE AGREEMENT – Fees and Payment terms”, payable by JCV to SenseTime HK was determined after arm’s length negotiation between the parties and with reference to factors including, where applicable, the price of similar products/ services in the market, the subject volume, scale, resources required and relevant costs to the Group as well as the prevailing market conditions. The license fee and the fees for the other supporting services pursuant to the Software License Agreement, which is expected to exceed USD10,000,000 in aggregate, shall be an additional source of income for the Group;

- (vi) the other supporting services, including the Consulting Services, Maintenance Services and Other Services (as set out under the paragraph headed “THE SOFTWARE LICENSE AGREEMENT” in this announcement), are part and parcel of the Software License Agreement. While the duration of the Consulting Services is expected to be less than three years, the Maintenance Services and the Other Services are expected to be for a period of five years commencing from the Acceptance Date, all of which are shorter than the duration of the Software License Agreement;
- (vii) Red Sun considered that strict compliance with the three-year requirements in respect of the term under the Software License Agreement, in particular for the license of the Software and the provision of the other supporting services, will be impractical for the arrangement as the management of the Company understands that the localisation of the Software through the initial customised modifications is expected to take JCV no less than two years, the subsequent iterations, marketing and roll out of the relevant products as well as the market penetration period will take additional time thereafter. Given the above factors and the expected resources to be committed by JCV to localise the Software, it would be commercially impractical for the parties to agree to a term of three years or less; and
- (viii) based on Red Sun’s research conducted on, among others, announcements and publications issued by other companies listed on the Stock Exchange, Red Sun has identified not less than 10 comparable transactions in relation to the grant of right to use and/or the licensing of certain intellectual property rights, including, where applicable, patents, know-how, copy rights, license, technical information and data, including transactions entered into by member(s) of listed groups on the Main Board of the Stock Exchange and was effective as at the date of this announcement (the “**Market Licensing Precedent(s)**”). Red Sun considered the Market Licensing Precedents to be an appropriate reference for general market practice, and noted that the term of the relevant agreements in connection with the Market Licensing Precedents ranged from a four year term and up to a term with no specified end date, whereby such agreement would remain in force until terminated by either party thereto. As such, the proposed terms under the Software License Agreement falls within such range.

Having considered the principal factors set out above and based on its analysis, Red Sun is of the view that the respective terms of the license and the other supporting services under the Software License Agreement of more than three years is reasonable and it is normal business practice for agreements of this type to be of such duration.

LISTING RULES IMPLICATIONS

JCV is a wholly-owned subsidiary of SoftBank Corp, which is in turn a 30%-controlled company of SoftBank Group Corp., a company listed on the Tokyo Stock Exchange (TYO stock code: 9984). SoftBank Group Corp. is the holding company of SVF Sense (Singapore) Pte. Ltd., a substantial shareholder of the Company. Accordingly, JCV is an associate of SVF Sense (Singapore) Pte. Ltd. and a connected person of the Company. Therefore, the Software License Agreement and the transactions contemplated thereunder constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps are more than 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Software License Agreement are subject to compliance with the reporting, announcement and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, except in special circumstances where the nature of the transaction requires the agreement to be of a longer duration, the term of an agreement for continuing connected transactions must not exceed three years. As each of the terms of the license and the other supporting services under the Software License Agreement exceeds three years, the Company has appointed Red Sun as its independent financial adviser to explain why a period of longer than three years is necessary and to confirm if it is normal business practice for agreements of these types to be of such duration.

INFORMATION ON THE PARTIES TO THE SOFTWARE LICENSE AGREEMENT

SenseTime HK

SenseTime HK is a direct wholly-owned subsidiary of the Company principally engaged in the sales of advanced AI software, the sales of AI software-embedded hardware and related services as well as research and development activities in relation to AI technology.

JCV

JCV is principally engaged in distribution of AI hardware and software. SoftBank Group Corp. is a conglomerate principally engaged in the communications and Internet related business.

DEFINITIONS

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

“Acceptance Date”	the date on which JCV issues its final written acceptance of the delivery of the Software to SenseTime HK in accordance with the terms of the Software License Agreement
“AI”	artificial intelligence
“Annual Caps”	the annual caps for the annual amounts payable by JCV to SenseTime HK pursuant to the Software License Agreement as described in the paragraph headed “The Software License Agreement – Annual Caps” in this announcement
“Board”	the board of Directors
“Class A Share(s)”	the class A ordinary shares of the Company with a par value of US\$0.000000025 each
“Class B Share(s)”	the class B ordinary shares of the Company with a par value of US\$0.000000025 each
“Company”	SenseTime Group Inc. (商汤集团股份有限公司), an exempted company incorporated under the laws of Cayman Islands with limited liability, the issued Class B Shares of which are listed on the Main Board of the Stock Exchange (stock code: 0020)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consulting Services”	the consulting services to be provided by SenseTime HK to JCV pursuant to the terms of the Software License Agreement as described in the paragraph headed “The Software License Agreement – Other supporting services” in this announcement
“Director(s)”	director(s) of the Company
“Distributorship Agreement”	the distributorship agreement dated August 30, 2019 entered into between SenseTime HK and JCV, as amended and supplemented from time to time, and as described in the Company’s prospectus dated December 7, 2021 (as supplemented by the supplemental prospectus of the Company dated December 20, 2021)

“Group”	the Company and its subsidiaries and consolidated affiliated entities from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“JCV”	Japan Computer Vision Corp., a company incorporated under the laws of Japan with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maintenance Services”	the maintenance services to be provided by SenseTime HK to JCV pursuant to the terms of the Software License Agreement as described in the paragraph headed “The Software License Agreement – Other supporting services” in this announcement
“Other Services”	the other supporting services to be provided by SenseTime HK to JCV pursuant to the terms of the Software License Agreement as described in the paragraph headed “The Software License Agreement – Other supporting services” in this announcement
“PRC”	the People’s Republic of China
“Red Sun”	Red Sun Capital Limited, a corporation licensed by the Securities and Futures Commission to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, being the independent financial advisor engaged by the Company to provide independent advice in respect of the Software License Agreement pursuant to the requirement under Rule 14A.52 of Listing Rules
“SenseTime HK”	SenseTime Group Limited 商湯集團有限公司, a company incorporated under the laws of Hong Kong with limited liability, and a direct wholly-owned subsidiary of the Company
“Share(s)”	the Class A Shares and Class B Shares
“Shareholder(s)”	the holder(s) of Share(s)

“Software”	SenseXchange software platform developed by SenseTime HK and its associated documentation files
“Software License Agreement”	the software license agreement dated June 8, 2022 entered into between SenseTime HK and JCV
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States dollars, the lawful currency of the United States

For the purposes of this announcement and illustration only, conversions of USD into HK\$ are based on the approximate exchange rate of USD1.00 to HK\$7.85. No representation is made that any amount in HK\$ or USD could have been or could be converted at the above rate or at any other rates.

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

Hong Kong, June 8, 2022

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