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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)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

The Board is pleased to announce the consolidated financial results of the Group for the year ended December 31, 2022. The consolidated financial statements for the year ended December 31, 2022 have been audited by the Auditor in accordance with the International Standards on Auditing, and reviewed by the Audit Committee.

### KEY HIGHLIGHTS

#### Financial Summary

	Year ended December 31				Year-over-year change
	2022	2021	Amount	As a percentage of revenue	
	<b>Amount</b>	<b>As a percentage of revenue</b>	<b>Amount</b>	<b>As a percentage of revenue</b>	
	<i>(RMB in thousands, except for percentages)</i>				
Revenue	3,808,510	100.0	4,700,263	100.0	-19.0%
Gross Profit	2,542,267	66.8	3,277,638	69.7	-22.4%
Loss for the year	(6,092,990)	(160.0)	(17,177,050)	(365.4)	-64.5%
<b>Non-IFRS Measures:</b>					
Adjusted EBITDA	(4,213,444)	(110.6)	(878,970)	(18.7)	379.4%
Adjusted net loss	(4,736,199)	(124.4)	(1,418,348)	(30.2)	233.9%

## Operating Metrics

	<b>Year ended December 31</b>		<b>Year-over-</b>
	<b>2022</b>	<b>2021</b>	<b>year change</b>
Number of customers in Smart Business	<b>717</b>	922	-22.2%
Number of customers in Smart Life	<b>317</b>	257	23.3%
Number of customers in Smart Auto	<b>34</b>	34	0.0%
	<b>As at December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>Change</b>
Number of cities served in Smart City	<b>162</b>	140	15.7%

## **BUSINESS REVIEW AND OUTLOOK**

In 2022, artificial general intelligence (AGI) made significant progress driven by large computing power and large models. SenseTime is well prepared to take full advantage of such trends. Our continued investment in high performance computing infrastructure, research and development of large models is bearing fruits. We have continued to make breakthroughs in the major technical fields of computer vision (CV), AI-generated content (AIGC), natural language processing (NLP), speech recognition and synthesis, decision intelligence and AI chips, laying a solid foundation for achieving more powerful AGI capabilities.

In 2022, the Company's breakthroughs in core technologies are as follows:

1. **SenseCore and high-performance computing:** The Company continues to make breakthroughs in its AI computing infrastructure – SenseCore. SenseCore achieves a computing power output of 5.0 exaFLOPS based on the parallel computing capabilities of more than 27,000 GPUs, which can effectively support up to 20 large foundation models to train simultaneously, each using thousands of GPUs in parallel. To meet the rapidly evolving demands of training large and complex AI models, we persistently optimize our distributed computing platforms, energy-efficient data centers, high-speed network architectures, high-performance storage systems, fault tolerance and reliability in training, data security platforms, hybrid cloud computing, as well as performance monitoring and analysis systems. By investing in and innovating SenseCore's large-scale AI system capabilities, we provide a reliable, cutting-edge research and development environment, as well as a plentiful supply of computational power to address the growing needs of training large AI models.
2. **Computer vision:** The Company has achieved remarkable results in the field of computer vision, breaking the performance and capability boundaries of large-scale CV models. We have successfully developed the world's largest CV foundation model with 32 billion parameters, realizing high-performance object detection, image segmentation, and multi-object recognition capabilities. It has been widely applied in areas such as autonomous driving, industrial quality inspection, and medical imaging. For example, our BEVFormer++ perception algorithm, based on the large CV foundation model, won the 2022 Waymo Challenge championship in the main track.
3. **AI-Generated Content:** We trained a text-to-image large models, demonstrating exceptional capabilities in text-based image generation, high image quality, and fast inference speed. Our models possess a unique advantage in comprehending traditional Chinese culture, such as generating corresponding images using Chinese poetry as prompts. In terms of image quality, we support the creation of 6K ultra-high-definition images with more refined handling of light and shadow.

4. Natural language processing: The Company has made an important breakthrough in the field of NLP. The Company has successfully developed pre-trained large language model with over 100-billion parameters, which significantly improves performance in tasks such as text generation and human-computer dialogue. This model and its capabilities will be available in the market by mid-2023.
5. Speech recognition and synthesis: The Company has achieved technological leadership in the field of speech recognition and synthesis. The speech recognition models it has developed have achieved high accuracy and low latency speech-to-text conversion in a variety of scenarios. The company has also developed speech synthesis models that can generate speech with different tones and timbres according to user needs. These technologies provide strong support for the Company's digital human and SenseAuto Cabin products.
6. Reinforcement learning and decision intelligence: The Company has made progress in the field of reinforcement learning and has successfully developed a series of efficient decision intelligence models. These models have been applied in areas such as robot control, game AI and decision intelligence systems for autonomous driving.
7. AI chips and hardware acceleration: The Company has made important achievements in AI hardware and successfully developed several high-performance, low-power AI inference chips and AI ISP chips. These chips have demonstrated powerful computing capabilities in scenarios such as data centers and edge computing, providing a solid hardware foundation for the Company's AI business. At the same time, we maintain close collaboration with various semiconductor manufacturers, continuously optimizing the efficiency of AI models on hardware.

In summary, throughout 2022, the Company has achieved a series of eye-catching accomplishments in technology research and development. To better support the development of AGI, we officially offer the capabilities of our SenseCore AI platform to industry clients. SenseCore enables customers to efficiently train large AI models by providing high-performance computing resources, a rich library of pre-trained models, easy-to-use development tools, and professional technical support. With the support of SenseCore, more than 10 large model training projects have been kicked-off, covering user-defined large model development in visual, language, and multimodality. SenseCore is committed to becoming a leading infrastructure service provider in the AGI and large model era, empowering clients to achieve business value and technological breakthroughs by offering high-performance computing resources, innovative technologies, and a wide range of services.

In 2022, the Company actively promoted the application of various AI technology and transformed our business structure. In 2022, the Group's revenue from Smart Life and Smart Auto segments grew significantly, while the revenue from Smart Business and Smart City segments declined. The group's total revenue for 2022 amounted to RMB3,808.5 million, with a year-on-year decrease of 19.0%. Gross profit was RMB2,542.3 million, and the gross profit margin was 66.8%. The Smart Life segment achieved revenue of RMB955.1 million, representing a year-on-year increase of 129.9%. Four product lines of Smart Life, namely AIGC, AI sensor, AI ISP chip and Smart Healthcare have achieved commercial breakthroughs;

the Smart Auto segment achieved revenue of RMB292.7 million, representing a year-on-year increase of 58.9%, the proportion of pre-installed product revenue driven by auto shipment has increased, and the value per vehicle also improved; the Smart Business segment achieved revenue of RMB1,464.3 million, representing a year-on-year decrease of 25.2%, while we achieved the expansion of SenseCore's external business and successfully increased AI-as-a Service (AIaaS) revenue; the Smart City segment realized revenue of RMB1,096.4 million, representing a year-on-year decrease of 48.8%, while we focused on serving top clients and optimizing revenue quality. Excluding share-based compensation expenses, R&D investment amounted to RMB3,795.8 million, representing a year-on-year increase of 24.0%. The net loss of the Group was RMB6,093.0 million, and the adjusted net loss was RMB4,736.2 million. As of December 31, 2022, the total balance of cash at banks and in hand, structured deposits and fair value of investments in bonds held by the Group was RMB16,602.7 million.

## **SENSECORE AND R&D**

In 2022, pre-trained large models represented by GPT has brought a new wave of explosive growth in AI applications, and the development of large models relies on large-scale high-performance computing infrastructure. In 2022, SenseCore continued to expand, completing the deployment of 27,000 GPUs and achieving a computing power output of 5.0 exaFLOPS. It provided services for industry partners in the form of AIaaS, and fully empowered the large model training of SenseTime itself as well as its industry partners. Currently, SenseCore can effectively support up to 20 large foundation models with over 100-billion parameters to train simultaneously, each using thousands of GPUs in parallel and can support the training of super-large models with trillions of parameters. Currently, SenseCore supports over 10 large model training projects, including large language model, AIGC model, CV model, multimodality model and other self-developed and customized models among which are customized large models from 8 key customers taking up 7,000 GPUs of SenseCore.

SenseCore's AIaaS offerings include Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and Model Deployment and Inference as a Service (MaaS). The main capabilities are:

### **1) Powerful computing infrastructure (IaaS)**

SenseCore provides high-performance computing resources (such as GPU clusters and high-speed networks) to support the computing power required for large scale model training. Our distributed training architecture supports large-scale distributed training at the thousand-card level, with 91.5% thousand-card parallel efficiency and up to 4,000 GPU cards for single-task training, effectively reducing training time and improving computational efficiency. In 2022, SenseTime AIDC in Shanghai Lingang opened for operation, which is a large-scale, low-carbon and energy-efficient advanced computing infrastructure built by the Company and is one of the largest AI computing centers in Asia. The opening of the Shanghai Lingang AIDC greatly enhanced SenseCore's high-performance computing power supply capability.

**2) Easy-to-use deep learning platform, rich development tools, pre-trained model library and open source ecosystem (PaaS)**

We provide easy-to-use development tools and a deep learning platform to help internal and external users build and optimize models efficiently. We also provide a library of pre-trained models covering multiple domains and scenarios. Users can train their own models based on these models, significantly shortening R&D cycles and reducing R&D costs and risks. Meanwhile, we have open-sourced five platforms, namely OpenMMLab, OpenGVLab, OpenDILab, OpenXRLab and OpenPPL containing a total of over 2,500 pre-trained models and 400+ algorithms, and these open-source platforms have attracted the participation of global AI developers and received 77,000+ stars on Github.

**3) Flexible Model deployment and inference service (MaaS)**

SenseCore supports users to deploy trained AI models to the cloud, edge devices or hybrid environments in one click across platforms. We have adapted and optimized classic models for 30 chips and 100+ platforms to support large-scale real-time inference. We provide optimization tools and techniques such as model compression and model fusion to further improve the performance of models in the deployment and inference stages.

**4) Professional algorithm and expert support**

SenseCore has an experienced model training support team to provide technical consultation and problem solving for users. We provide customized consulting services to assist users in optimizing model architecture, selecting appropriate algorithms, and ensuring optimal model performance.

**5) High quality data processing, security and compliance**

The training of large models requires a large amount of high-quality data. We provide tools and services such as data processing, cleaning, and semi-automated labeling to improve the quality of training data, thereby enhancing the accuracy and generalization of models. We follow strict security and compliance standards to ensure data and model security, and SenseCore uses industry-leading encryption technology and isolation policies to protect user data from unauthorized access.

SenseCore continues to drive the improvement of AI model production in terms of scale, performance and speed. In 2022, our R&D expenditure after deducting share-based salary expenses is RMB3,795.8 million, representing a year-on-year increase of 24.0%; since 2018, our accumulated R&D investment has reached RMB12,847.1 million. As of December 31, 2022, our R&D team comprises 3,466 employees, accounting for 68% of the total number of employees. Our per capita R&D efficiency continued to improve, and the average number of models produced by each R&D personnel per year has increased to 9.35, an increase of 90% from 2021. The cumulative number of commercialized models increased by 93% to 67,000.

## **Performance of each business segment**

In 2022, based on the capabilities of SenseCore and large models, the product matrix of our four major business lines, namely Smart Life, Smart Auto, Smart Business and Smart City were fully upgraded, and achieved transformation of the business structure: the overall revenue of Smart Life increased significantly, the four products, namely AIGC, AI sensor, AI ISP chip and Smart Health have achieved breakthroughs; the overall revenue of Smart Auto increased significantly, the proportion of pre-installed product revenue driven by auto shipment has increased, and the value per vehicle has improved substantially; the overall revenue of Smart Business declined, which focused on shifting the business towards SenseCore's external service to increase AIaaS revenue; the overall revenue of Smart City has declined, while focusing on serving top customers and optimizing the quality of revenue.

### **SMART LIFE**

In 2022, the revenue of Smart Life segment reached RMB955.1 million, an increase of 129.9% year-on-year, and recorded a historical high. The proportion of revenue to the Group increased from 8.8% in 2021 to 25.1% in 2022. The number of customers of Smart Life segment reached 317, increased by 23.3% year-on-year and revenue per customer improved by 86.4%.

### **Establishing AIGC's multimodal full-stack capability to empower the online and offline metaverse**

In 2022, the Company deployed large-scale pre-trained generative models, encompassing text, audio, images, videos, and 3D scenes, effectively enhancing the product and functionality of the SenseMARS mixed reality platform. This upgrade catered to industry clients and contributed to revenue growth. SenseMARS' AIGC capabilities have empowered over 200 apps, such as Xiaohongshu, Weibo, bilibili, ZEPETO, and Line, with a customer renewal rate exceeding 95%. SenseMARS' application to offline metaverse has also expanded to 15 million square meters, encompassing top-tier venues like large amusement parks, shopping malls, museums, and banks.

The newly launched digital human product based on AIGC combines full-stack capabilities like text generation, speech synthesis, dialogue, facial expressions & motion generation, along with high fidelity. It is applied in various scenarios such as video production, live streaming, and customer service. In a technical evaluation test conducted by one of China's four major banks, the digital human product ranked first in 142 technical indicators such as lip synchronization accuracy, aesthetic appearance, streaming concurrency, and synthesis efficiency, showcasing an overwhelming advantage. According to the "2022 China Digital Human Market Observation Report – Milestone" released by Frost & Sullivan, our digital human product has entered the "mature stage" and become a market leader. It scored the highest in six out of ten evaluation indicators, ranking first in overall competitiveness.

## **Breakthroughs in AI Sensors and AI ISP Chips Lead to Substantial Revenue Growth**

In the field of smartphones and intelligent devices, we offer a product combination of AI SDK, AI sensors, and AI ISP chips, empowering clients with powerful AI capabilities. In 2022, the production of new smartphones equipped with our AI SDK reached 450 million units, with our super-resolution and portrait series functions capturing the highest market share. Our video highlight moments and intelligent album features successfully mass-produced for clients such as Oppo, vivo, and Honor. For the AI sensor, we delivered six high-performance AI sensors. Our RGBW AI sensor has been mass-produced and launched in vivo's flagship phones, while our 2x2 OCL AI sensor has been delivered to a top global smartphone manufacturer with an expected mass-production volume of more than 100 million. Our first AI-ISP chip has been successfully activated, achieving a 50% reduction in power consumption compared to similar products while processing AI 4K ultra-high-definition video. The chip also enhances video quality and resolution and is scheduled for mass production and market launch in 2023.

## **Breakthrough in Smart Health Business Leads to Multifold Growth in Revenue**

In the field of healthcare, our Smart Health business achieved a breakthrough in 2022, with a significant increase in revenue. We have set our strategic goal to become the "AI-driven enabler of the Future Hospital Design" and offer a variety of intelligent products and services to our hospital clients. These include SenseCare intelligent diagnosis and treatment platform, smart medical assistant for patients, intelligent hospital management platform, and AI enabled medical research services. To date, our SenseCare intelligent diagnosis and treatment platform has obtained a total of 22 domestic and international medical device certifications, including China's NMPA Class III and Class II medical device registration certificates, European CE, Singapore, Saudi Arabia, and the UAE. The platform has been implemented in over a hundred hospitals and medical institutions, including top-tier ones like Shanghai Jiao Tong University School of Medicine Affiliated Ruijin Hospital, Sichuan University West China Hospital, and Zhengzhou University First Affiliated Hospital. In 2022, SenseCare successfully assisted doctors in analyzing tens of millions of medical exams.

## **AI robot products**

Our home consumer AI products business has made a groundbreaking achievement in 2022. The SenseRobot chess-playing robot, as the first chess-playing robot equipped with a robotic arm that can interact with humans, has entered consumers' homes. Since its official release in August 2022, it quickly became the top selling smart robot product in Tmall and JD.com, and won numerous awards such as "Product Innovation Exploration Brand", "2022 Annual Intelligent Hardware Innovation Award" and "Top 10 Best Products of Artificial Intelligence". SenseRobot greatly reduced the cost of high-precision robotic arms with the help of computer vision and reinforcement learning algorithms, realized production cost control and household-level security for consumer products, laid the foundation for the development of more consumer robotic products.

## SMART AUTO

Our Smart Auto segment achieved revenue of RMB292.7 million in 2022, a year-on-year increase of 58.9%. Its proportion to the Group's revenue increased from 3.9% in 2021 to 7.7% in 2022.

### **Mass production revenue increased significantly, with over 500,000 units delivered in 2022 and more than 8 million new pipelines.**

In 2022, our SenseAuto Cabin and SenseAuto Pilot products were adapted and delivered to 27 vehicle models, with mass production volume of over 500,000. The main customers of SenseAuto Cabin include NIO, GAC, BYD, and Changan; SenseAuto L2+/L2++ advanced driving assistance system (ADAS) products are mainly delivered to the flagship models of GAC and Hozon. In 2022, we received confirmation letter as designated supplier for an estimated more than 8 million new vehicles. Our customers include GAC, Nissan, BYD, Hozon, NIO, ZEEK, Changan, Chery, etc., covering more than 80 car models of more than 30 automotive companies and continued to lead the industry.

### **Releasing multiple new product upgrades, L2+ and L2++ successfully mass-produced, and value per vehicle increased**

Thanks to SenseCore's capabilities, we introduced large CV foundation model into the R&D of autonomous driving technology and established a complete data feedback loop system to achieve significant improvements in R&D efficiency and productization capabilities. We achieved mass production of several functions in 2022, including SenseAuto Cabin functions such as multi-mode interaction, sentry mode, smart rescue, gesture control and SenseAuto Pilot functions such as auto-piloting on highway and on urban road. This brought about a significant increase in the value of SenseAuto products per vehicle. SenseAuto Pilot successfully achieved the mass production of Bird's-eye-view (BEV) perception solution, which achieves industry-leading technical performance in 3D perception capability and effectively achieves high-precision recognition of over 3,000 types of object targets leveraging CV foundation model and data feedback loop mechanism, reducing the autonomous driving system's dependence on LIDAR and high precision maps. Our L2+ and L2++ ADAS solutions adapt to multiple computing platforms, including NVIDIA Orin, Huawei MDC and Horizon Robotics J5. At the same time, we are committed to providing more cost-effective mid-range compute platform solutions. In 2022, we achieved the industry's first L2+ ADAS solution based on the dual TI TDA4 compute platform, significantly reducing the hardware costs for mid-to-low-end electric vehicles to achieve L2+ ADAS capabilities. SenseAuto follows the technical route of continuous cost reduction, exploited tens of thousands of yuan of optimization space for the single vehicle hardware cost of the automatic driving system. In December 2022, the flagship model of GAC Aion equipped with SenseAuto Pilot Solution successfully achieved intercity highway autonomous driving with zero takeover throughout the 100 kilometer intercity highway test from Guangzhou to Shenzhen, excelled in lane changing, intelligent recognition of and avoiding vehicles, overtaking, intelligent recognition of optimal lanes, and automatic acceleration and deceleration in road sections with speed limit.

## **Achieved high revenue growth of the vehicle-to-road cloud integration product matrix**

In 2022, to promote the widespread application of autonomous driving technology, SenseAuto introduced the AI Cloud Platform – SenseAuto Vehicle-Road Connected Platform. This platform integrates a comprehensive product matrix of “vehicle-road-cloud” and aims to create a safe and efficient intelligent transportation ecosystem. The platform not only effectively supervises vehicles and clarifies responsibility attribution, but also provides a series of high-quality services for autonomous driving R&D, such as data feedback loop and data desensitization. By combining road-side perception with vehicle-end perception, SenseAuto’s platform can solve over 99% of vehicle blind spot issues. With the help of AI cloud computing, the sensing range of vehicles has been expanded a thousandfold. The platform also offers drivers practical functions such as suggesting route navigation, speeds, and carbon emission optimization, significantly reducing average intersection delays and instances of traffic signal idling, resulting in a traffic efficiency increase of over 20%.

With massive data generated by vehicles, SenseAuto’s platform can automatically label and train to address numerous long-tail issues. In terms of data desensitization, SenseAuto in collaboration with the China Association of Automobile Manufacturers and the Shanghai Motor Vehicle Inspection and Certification Technology Research Center, jointly released the “Requirements and Methods for Vehicle Video and Image Desensitization Technology.” This establishes a standard for desensitization methods and processes, filling the gap in domestic automotive data security area. By providing data desensitization solutions, SenseAuto assists automotive clients in completing data desensitization processing, ensuring the collection and use of data in compliance with laws and regulations, and further promoting the development of higher-level autonomous driving technology. To date, SenseAuto has provided data desensitization services for well-known automakers such as GAC Group, Nissan, Changan, and JAC Motors.

## **SMART BUSINESS**

In 2022, revenue from the Smart Business segment declined 25.2% year-on-year to RMB1,464.3 million, with customers in some industries suffering from the adverse impact from the pandemic and the macro environment, resulting in less demand. After the domestic pandemic got effectively controlled, business activities and the general economy of China gradually recovered, customers’ willingness to invest in digital transformation improved. In 2022, 38.4% of the Group’s total revenue came from the Smart Business segment, representing a decrease as compared with 41.7% in 2021. The number of customers served in this segment is 717, a decrease of 22.2% year-on-year. Among them, more than 110 customers were Fortune 500 companies and listed companies.

## **Focusing on AI Cloud Business Transformation, AIaaS Revenue Increases**

In 2022, SenseCore opened its capabilities to industry customers, empowering their model development. More than 10 large model training projects have been initiated with SenseCore's support, including customized large models in the fields of NLP, AIGC, CV, multimodality, etc. In 2022, SenseCore started to generate revenue from external services, exceeding 20% of the overall revenue of the Smart Business segment. The revenue generated by SenseCore is expected to increase significantly in 2023.

## **Boosting Digital Transformation for Top Clients in the Energy and Industrial Sectors**

To drive the digital transformation of enterprises in digital energy and industrial sectors, we have used large CV models to solve three major challenges in the development of industrial vision models: high data acquisition cost, uneven distribution and weak generalization capability. Large CV foundation model is good at generalization, and thus enables us to successfully achieve multi-task learning, few-shot learning and out-of-distribution detection, and the accuracy rate for fragmented long-tail scenes could be over 99%, which broadens the application cases of AI technology in industrial fields. According to the "14th Five-Year Plan" of the PRC for digital economic development, the penetration rate of industrial Internet platforms will reach 45% by 2025. Leading companies in various industries have increased their investment in digital transformation and intelligent upgrading. In the field of digital energy, we have joined hands with China's largest power grid enterprise to provide perception intelligence-enhanced automatic inspection service for more than 500 outlets nationwide, improving inspection efficiency by 5-6 times and increasing the detection rate of defects and hidden dangers by 2-3 times. In the field of power battery, we worked with China's largest power battery company to provide industrial intelligence analysis, successfully covered 6 production bases and over 80 production lines. We firmly believe that the capability of the large foundation model will further lower the threshold of developing and applying AI technology in various industries, broaden the boundary of AI.

## **SMART CITY**

In 2022, the revenue of the Smart City segment decreased by 48.8% year-on-year to RMB1,096.4 million. The construction of smart cities projects in some cities was affected by the pandemic and the project progress was not as expected. The circumstance improved after the domestic pandemic has been effectively controlled. In this context, the Company took the initiative to adjust the Smart City business, focusing on serving top customers, and continuously optimizing the cash flow. In 2022, the Smart City segment accounted for 28.8% of the Group's total revenue, which is lower than 45.6% in 2021. At the same time, we maintained our competitive edge in the Smart City business. According to IDC MarketScape: China Smart City Computing Platform Vendor Assessment, 2022, SenseTime was shortlisted as a leader and ranked first in terms of strategic capability.

In the past year, the Chinese government supported the digital upgrade of cities via designated special bonds. Our SenseFoundry product was thus able to empower more cities. We added 22 new cities, and as of December 31, 2022, a total of 162 cities have deployed SenseFoundry, including 16 large cities with over 10 million population, and 4 overseas cities. We will continue to focus on our Smart City business with higher quality cash flow, so as to ensure its sound development.

As the digitalization of cities continues, urban management is faced with increasingly complex long-tail scenarios and fragmented demands. In 2022, we successfully developed a large CV foundation model for urban perception, and leveraged transfer learning and fine-tuning to create dedicated models for various scenarios. So far, SenseFoundry has incorporated around 35,000 AI models, which can cope with more long-tail and fragmented analysis needs. Combined with cloud computing, smart cities have realized real-time data processing and analysis, bringing innovative paradigms to urban management and mobility.

## **ENVIRONMENT, SOCIETY AND GOVERNANCE**

With the birth of ChatGPT and the debut of the era of AGI, the ethics and governance of AI have once again received great attention. We are committed to our mission of “creating a better AI-empowered future through innovation”, and have spared no effort in practicing ethical governance of AI and sustainable corporate development to contribute to a smarter, more prosperous, inclusive and sustainable future.

## **Environmental Protection**

In 2022, SenseTime actively practiced the concept of green development and integrated energy conservation and carbon reduction into all aspects of operation. The Company has established a top-level carbon neutral goal, and strives to achieve “carbon peak in 2025, carbon neutral operation in 2030, and net zero emissions in 2050”. SenseTime pays close attention to the path of AI carbon reduction, and uses the intelligent management system to optimize the refrigeration system, emission reduction modifications and refinement of facility operation and maintenance in AIDC. The power consumption of our AIDC is more than 10% lower than the industry average level of China’s medium and large data centers, saving around 45 million kWh of power consumption and reducing around 35,600 tons of carbon dioxide emissions per year. At the same time, we have set a three-year energy efficiency control target, and planned to optimize the energy consumption per computing power by 30% by 2025, and continue to promote the construction of green data centers.

In addition, SenseTime launched solutions such as smart virtual power plants, energy management and control and carbon inclusion, empowering the implementation of carbon neutral strategies in energy industry. In October 2022, SenseTime signed a strategic cooperation agreement with State Power Investment Science and Technology Research Institute to jointly build an AI-empowered platform suitable for the power industry and cooperate in developing smart new energy solutions. We endeavor to use AI technology to precisely forecast the energy supply-demand trends, generating dispatch and operation strategies automatically, balancing power supply and demand across regions, and driving energy saving and emission reduction in photovoltaic stations and energy storage power stations.

## **Governance and Information Security**

SenseTime has always attached great importance to AI governance. Following the proposal of the “balanced development” ethical view of AI and the ethical principles of people centric, controllable and sustainable. SenseTime released a white paper on Balanced Development of AI Governance – SenseTime AI Ethics and Governance Annual Report (2022), advocating the development of “responsible and assessable” AI as our vision for AI governance. Since 2020, SenseTime has coordinated and promoted the building of the AI ethics governance system at workplace, carried out a large number of governance innovation practices, and has formed a set of assessable AI governance landing plans, embedding ethical principles into the entire life cycle of product design, development and deployment, forming a closed loop of AI governance. In August 2022, the SenseTime AI training platform (AutoLink) won the “Trusted AI Platform Application Benchmark Case” award by the AI Industry Development Alliance, and SenseTime’s ethical governance system and algorithm evaluation tool also won the “Trusted AI Practice Excellence Case” award. In the 2022 “Trusted AI Promotion Plan” released by China Artificial Intelligence Industry Development Alliance (AIIA) and the AI Key Technology and Application Evaluation Laboratory, SenseTime was selected as one of the “Top 10 Enterprises with Outstanding Contribution in 2022”.

SenseTime insists on following the highest standards of information security and data privacy regulations, and sets the information security policy of “business-driven security, comprehensive risk control, compliance in the use of personal information and privacy information, and effective data protection”. In 2022, SenseAuto received ISO/SAE 21434:2021 Automotive Information Security Process Certification in December 2022, following the ISO 26262 Functional Safety ASIL B product certification and ASPICE CL2 certification in July 2020. ISO/SAE 21434 standard is the first information safety international standard for vehicles on road, providing a complete information safety structure for the entire life cycle of vehicles on road. This international certification marks that SenseAuto has more comprehensive information security management, design, development and verification capabilities, and that it has become one of the few companies in the industry to obtain all three certificates. SenseTime will continue to leverage its advantages to promote upstream and downstream cooperation in the industry, actively participate in the formulation of regulations and standards on AI security, privacy and intellectual property rights, and contribute to the construction of safer and more reliable AI technology through research, cooperation and innovation.

## STRATEGIC OUTLOOK

Looking into the future, SenseTime regards AGI as its core strategic objective, with a view to achieving major breakthroughs in AGI technology in the next few years. To achieve this goal, SenseTime will focus on the following areas of work:

### 1. Large computing power

We recognize that computing power is a key driver for achieving AGI. SenseTime will use SenseCore as the core platform for large-scale model production, continue to expand its capabilities, including investing in high-performance computing infrastructure such as high-speed networks, large-scale data storage and powerful computing nodes; we will continue to conduct in-depth research on parallel computing and distributed systems to strengthen system scalability, shorten model training time, and accelerate iteration cycle. By building advanced hardware infrastructure and cloud platform, we will provide researchers with an efficient and stable computing environment to support the training and optimization of complex AI models with stronger capabilities.

### 2. Large multimodal model

SenseTime takes the R&D of large multimodal models as a strategic investment direction. These models can handle multiple data types, including text, images, audio and video, and have stronger data understanding and generation capabilities, as well as multi-task generalization capabilities. We will continue to build the capabilities of large multimodal models around the following areas:

- Model architecture innovation: optimize the model architecture that combines multiple data types to improve the processing ability of multimodal data;
- Dataset construction: construct large-scale multimodal datasets to support model training and evaluation;
- Knowledge fusion and inference: optimize multimodal knowledge representation and fusion methods to improve the performance of models in complex tasks;
- Expansion of application scenarios: Actively cooperate with partners to promote the application of large multimodal models, and focus on achieving breakthroughs in cross-domain complex applications such as intelligent assistants, autonomous driving and medical diagnosis;
- Interpretability and security: Focus on interpretability and security of models to ensure safety and reliability in various application scenarios.

### **3. Collaborating on AI-Specific Hardware, Chips, and Open Research**

SenseTime is partnering with various chip designers and manufacturers to promote the development of AI hardware and chips, aiming to achieve stronger AI computing capabilities and higher energy efficiency. In the field of high-performance computing, the Company recognizes the importance of cross-domain collaboration. SenseTime is actively collaborating with global research institutions, universities, and enterprises to jointly explore new ways for optimizing computing power and driving the development of AI capabilities.

### **4. Establish and execute the development goal of “AI for All”, that is, to ensure the development of AI technology could benefit all mankind as a whole. To achieve this goal, SenseTime will focus on the following aspects:**

- **Affordability and Accessibility:** SenseTime will strive to lower the cost and barriers of AI technology, making it economically and technically viable for more individuals and organizations. This means developing low-cost, high-performance hardware and software solutions, as well as providing easy-to-use APIs and development tools, enabling every company and individual to easily access AI technology.
- **Open Source and Collaboration:** SenseTime will advance the development of AI technology with global AI researchers and developers through open-source projects, shared resources, and collaborative research. This includes publishing research findings, open-sourcing algorithms and models to promote global AI technology innovation and exchange.
- **Diversity and Inclusiveness:** SenseTime will focus on the application of AI across different countries and regions. This entails conducting research and development in multiple languages and cultures, promoting the application of AI in fields such as education and healthcare to meet the needs of diverse groups.
- **Policy and Regulation:** SenseTime will collaborate with governments, industry partners, and academic organizations to jointly explore and establish policy and regulatory frameworks for AI technology. This includes participating in the development of regulations and standards related to AI safety, privacy, and ethics to ensure the compliance and sustainable development of AI technology.

- 5. Utilize SenseCore and large model capabilities to upgrade our four major sectors, namely Smart Life, Smart Auto, Smart Business and Smart Cities. By making full use of the capabilities of large models, we will continuously upgrade and strengthen the product matrix of the four business segments, improve product competitiveness, and promote the application of AI via commercialization:**
- SenseCore: continue to advance SenseCore’s external service business, actively empower large model R&D enterprises and research institutions, empower AIGC, autonomous driving, AI for Science etc. and actively support various AI application companies;
  - Smart Life: deepen AIGC’s multimodal full-stack capabilities and improve the products and functions of SenseMARS; promote the application of AIGC-based digital human generation products in various industries; In the field of smart phones and smart devices, continue to innovate the product portfolio of AI SDK, AI sensors and AI ISP chips to increase market penetration and revenue growth;
  - Smart Auto: continue to innovate and mass-produce SenseAuto Pilot and SenseAuto Cabin products, optimize high-precision recognition and perception capabilities, reduce hardware costs and realize compatibility with multiple computing power platforms, deepen the vehicle-road-cloud integrated product matrix to create a smart transportation ecosystem, continue to maintain our leadership position in intelligent automobiles and promote industry innovation;
  - Smart City and Smart Business: focus on AI cloud business transformation, increase AIaaS revenue and assist our customers’ digital transformation in the digital energy and industrial sectors; continue to optimize the cash flow of Smart City business, and steadily grow business.

## MANAGEMENT DISCUSSION AND ANALYSIS

Year ended December 31, 2022 compared to Year ended December 31, 2021

The following table sets forth the comparative figures for the years ended December 31, 2022 and 2021:

	<b>Year ended December 31</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue	<b>3,808,510</b>	4,700,263
Cost of sales	<b>(1,266,243)</b>	(1,422,625)
<b>Gross profit</b>	<b>2,542,267</b>	3,277,638
Selling expenses	<b>(900,787)</b>	(681,584)
Administrative expenses	<b>(1,567,739)</b>	(2,298,362)
Research and development expenses	<b>(4,014,337)</b>	(3,614,140)
Net impairment losses on financial assets and contract assets	<b>(1,667,671)</b>	(517,608)
Other income	<b>447,255</b>	504,280
Other losses – net	<b>(1,367,311)</b>	(399,958)
<b>Operating loss</b>	<b>(6,528,323)</b>	(3,729,734)
Finance income	<b>260,546</b>	187,716
Finance cost	<b>(55,438)</b>	(33,758)
<b>Finance income – net</b>	<b>205,108</b>	153,958
Share of losses of investments accounted for using the equity method	<b>(2,357)</b>	(40,231)
Fair value losses of preferred shares and other financial liabilities	<b>(7,240)</b>	(13,525,537)
<b>Loss before income tax</b>	<b>(6,332,812)</b>	(17,141,544)
Income tax credit/(expenses)	<b>239,822</b>	(35,506)
<b>Loss for the year</b>	<b>(6,092,990)</b>	(17,177,050)
<b>Loss is attributable to:</b>		
Equity holders of the Company	<b>(6,044,796)</b>	(17,140,086)
Non-controlling interests	<b>(48,194)</b>	(36,964)
	<b>(6,092,990)</b>	(17,177,050)
<b>Non-IFRS measures:</b>		
Adjusted EBITDA	<b>(4,213,444)</b>	(878,970)
Adjusted net losses	<b>(4,736,199)</b>	(1,418,348)

## Revenue

Our revenue decreased by 19.0% to RMB3,808.5 million in 2022, compared to RMB4,700.3 million in 2021, primarily due to the decrease in Smart City and Smart Business revenues, partially offset by the increase in Smart Life and Smart Auto revenues. The following table sets out a breakdown of our revenue streams in absolute amounts and as percentages of our total revenue for the years indicated:

	Year ended December 31			
	2022		2021	
	<i>RMB</i> <i>million</i>	<i>%</i>	<i>RMB</i> <i>million</i>	<i>%</i>
Smart Business	<b>1,464.3</b>	<b>38.4</b>	1,957.9	41.7
Smart City	<b>1,096.4</b>	<b>28.8</b>	2,142.8	45.6
Smart Life	<b>955.1</b>	<b>25.1</b>	415.4	8.8
Smart Auto	<b>292.7</b>	<b>7.7</b>	184.2	3.9
<b>Total</b>	<b><u>3,808.5</u></b>	<b><u>100.0</u></b>	<u>4,700.3</u>	<u>100.0</u>

Our Smart Business revenue decreased by 25.2% to RMB1,464.3 million in 2022, compared to RMB1,957.9 million in 2021. This primarily reflected customers' delayed AI spending and deployment of our products on their sites due to lock-down situations caused by COVID-19 in certain cities of Mainland China in 2022. Towards the end of 2022, as COVID-19 cases surged in Mainland China, many of our customers' business operations were further disrupted, which negatively impacted our selling and deployment efforts.

Our Smart City revenue decreased by 48.8% to RMB1,096.4 million in 2022, compared to RMB2,142.8 million in 2021. Our revenue was negatively affected by the COVID-19 pandemic, as some city administrators in Mainland China delayed deployment of certain Smart City operations to prioritize counter-pandemic efforts. However, we have continued our expansion in domestic city coverage and has deployed our SenseFoundry platform into 22 new cities in 2022.

Our Smart Life revenue increased by 129.9% to RMB955.1 million in 2022, compared to RMB415.4 million in 2021. The increase was primarily due to (i) increasing R&D related revenue from our work on AI ISP chips, as part of our collaboration with a global leading semiconductor company, (ii) increasing revenue from healthcare customers as remote and computer vision-related diagnosis practice became more widely accepted as a result of both technology advancement and social distancing during COVID-19 pandemic, and (iii) successful introduction of SenseMARS, our Metaverse-enabling platform, into international markets.

Our Smart Auto revenue increased by 58.9% to RMB292.7 million in 2022, compared to RMB184.2 million in 2021, primarily due to (i) increasing revenue from commercial deployment of our pre-installed smart cabin products as our auto OEM customers began to launch mass production of new car models, and (ii) revenue from new ADAS-related R&D collaborations with auto OEMs customers.

## Cost of sales

Our cost of sales decreased by 11.0% from RMB1,422.6 million in 2021 to RMB1,266.2 million in 2022. The following table sets out a breakdown of our cost of sales by nature in absolute amounts and as percentages of our cost of sales for the years indicated:

	Year ended December 31			
	2022		2021	
	<i>RMB</i> <i>million</i>	<i>%</i>	<i>RMB</i> <i>million</i>	<i>%</i>
Hardware costs and subcontracting service fees	<b>1,118.9</b>	<b>88.4</b>	1,265.4	89.0
Server operation and cloud-based service fees	<b>13.8</b>	<b>1.1</b>	1.5	0.1
Employee benefit expenses	<b>72.1</b>	<b>5.7</b>	80.1	5.6
Depreciation and amortization	<b>39.4</b>	<b>3.1</b>	–	–
Other expenses	<b>22.0</b>	<b>1.7</b>	75.6	5.3
<b>Total</b>	<b>1,266.2</b>	<b>100.0</b>	1,422.6	100.0

The decrease in cost of sales was primarily attributable to the decrease in hardware costs and subcontracting service fees, which was generally in line with the decrease of our revenue. We began to incur depreciation and amortization in cost of sales as we started to provide AIDC services leveraging our advanced AI infrastructure in 2022.

## Gross Profit and Gross Margin

As a result of the foregoing, our gross profit decreased by 22.4% from RMB3,277.6 million in 2021 to RMB2,542.3 million in 2022, primarily due to the decrease of our revenue. Our gross margin decreased from 69.7% in 2021 to 66.8% in 2022.

## Research and Development Expenses

Our research and development expenses increased by 11.1% from RMB3,614.1 million in 2021 to RMB4,014.3 million in 2022, primarily due to (i) an increase of depreciation and amortization which resulted from our increasing investment in our AIDC infrastructure mainly for internal big AI model training efforts, and (ii) an increase in professional service and other consulting fees as we continue our investment in technology innovation including AI chip-related R&D efforts.

## Selling Expenses

Our selling expenses increased by 32.2% from RMB681.6 million in 2021 to RMB900.8 million in 2022, primarily due to (i) an increase in employee benefit expenses as a result of the expansion of our sales and marketing team, and (ii) an increase in marketing, conference and travelling expenses as we further enhance brand awareness through marketing and promotional activities in both domestic and overseas markets.

## **Administrative Expenses**

Our administrative expenses decreased by 31.8% from RMB2,298.4 million in 2021 to RMB1,567.7 million in 2022, primarily due to a decrease in the share-based compensation expenses to our management team and administrative staff.

## **Net Impairment Losses on Financial Assets and Contract Assets**

Our net impairment losses on financial assets and contract assets increased by 222.2% from RMB517.6 million in 2021 to RMB1,667.7 million in 2022 primarily due to increased impairment provision for trade receivables. Our provision for impairment of trade receivables as percentage of gross trade receivables increased from 16.2% as of December 31, 2021 to 33.1% as of December 31, 2022 as we experienced some delay in customer cash collection mainly due to COVID-19 related disruptions and some customers' near-term budget constraints. The increase of gross trade receivables from RMB6,064.1 million as of December 31, 2021 to RMB7,796.3 million as of December 31, 2022 also contributed to the increase of impairment provision for trade receivables.

## **Other Income**

Our other income decreased by 11.3% from RMB504.3 million in 2021 to RMB447.3 million in 2022 primarily due to a decrease in government grants.

## **Other Losses, Net**

We had net other losses of RMB1,367.3 million in 2022 compared to net other losses of RMB400.0 million in 2021. The net other losses in 2022 primarily consist of net foreign exchange loss of RMB453.4 million and fair value losses on financial assets at fair value through profit or loss amounting to RMB885.1 million. The net foreign exchange losses mainly resulted from the unrealized foreign exchange losses on balances of offshore financial assets denominated in RMB, held by entities whose functional currency was HKD, as RMB depreciated against HKD by 8.5% in 2022. The fair value losses on financial assets at fair value through profit or loss resulted from the decline of our investment portfolios' valuation, which largely reflected the overall challenging market conditions for technology-related assets during 2022.

## **Finance Income, Net**

Net finance income increased from RMB154.0 million in 2021 to RMB205.1 million in 2022, primarily due to an increase in interest income earned from financial assets that are held for cash management purposes.

## **Fair Value Losses of Preferred Shares and Other Financial Liabilities**

Fair value losses of preferred shares and other financial liabilities of RMB13,525.5 million in 2021 primarily represented changes in fair value of preferred shares issued by the Company and were generally related to the increase in the valuation of our Company. As our initial public offering occurred at the end of 2021, preferred shares issued by the Company has been re-designated from financial liabilities to equity as a result of the automatic conversion into ordinary shares. Fair value losses of preferred shares and other financial liabilities of RMB7.2 million in 2022 represented the fair value change of preferred shares issued by a subsidiary of the Company.

## **Income tax credit/(expenses)**

We had income tax credit of RMB239.8 million in 2022, compared to income tax expenses of RMB35.5 million in 2021 primarily due to an increase in deductible tax losses.

## **Loss for the Year**

As a result of the foregoing, we had a loss of RMB6,093.0 million in 2022 primarily due to our R&D efforts, net impairment losses on financial assets and contract assets, fair value losses on financial assets at fair value through profit or loss and net foreign exchange losses, compared to a loss of RMB17,177.1 million in 2021.

## **Non-IFRS Measures**

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we also use EBITDA/adjusted EBITDA and adjusted net loss as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and certain impact of financing and investment activities. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the EBITDA/adjusted EBITDA and adjusted net loss may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

The following table sets out EBITDA/adjusted EBITDA and a reconciliation from loss before income tax for the years to EBITDA/adjusted EBITDA for the years indicated:

	<b>Year ended December 31</b>	
	<b>2022</b>	<b>2021</b>
	<i>RMB million</i>	<i>RMB million</i>
<b>Loss before income tax</b>	<b>(6,332.8)</b>	<b>(17,141.5)</b>
Add:		
Finance income, net	<b>(205.1)</b>	<b>(154.0)</b>
Depreciation and amortization	<b>967.7</b>	<b>657.8</b>
	<hr/>	<hr/>
<b>EBITDA</b>	<b>(5,570.2)</b>	<b>(16,637.7)</b>
Add:		
Fair value losses of preferred shares and other financial liabilities	<b>7.2</b>	<b>13,525.5</b>
Share-based compensation expenses	<b>464.5</b>	<b>1,583.9</b>
Fair value losses on financial assets at fair value through profit or loss <sup>(1)</sup>	<b>885.1</b>	<b>514.7</b>
Listing fee <sup>(1)</sup>	<b>–</b>	<b>134.6</b>
	<hr/>	<hr/>
<b>Adjusted EBITDA</b>	<b>(4,213.4)</b>	<b>(879.0)</b>

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 IFRS, which is net loss for the years:

	<b>Year ended December 31</b>	
	<b>2022</b>	<b>2021</b>
	<i>RMB million</i>	<i>RMB million</i>
<b>Net losses for the year</b>	<b>(6,093.0)</b>	<b>(17,177.1)</b>
Add:		
Fair value losses of preferred shares and other financial liabilities	<b>7.2</b>	<b>13,525.5</b>
Share-based compensation expenses	<b>464.5</b>	<b>1,583.9</b>
Fair value losses on financial assets at fair value through profit or loss <sup>(1)</sup>	<b>885.1</b>	<b>514.7</b>
Listing fee <sup>(1)</sup>	<b>–</b>	<b>134.6</b>
	<hr/>	<hr/>
<b>Adjusted net losses</b>	<b>(4,736.2)</b>	<b>(1,418.4)</b>

*Note:*

<sup>(1)</sup> Fair value losses on financial assets at fair value through profit or loss and Listing fee were not included in non-IFRS measures in our Prospectus.

## Trade, Other Receivables and Prepayments

Our trade, other receivables and prepayments increased from RMB5,775.9 million as of December 31, 2021 to RMB6,071.7 million as of December 31, 2022, which primarily comprise trade receivables and other receivables.

### Trade Receivables

The following table sets out a breakdown of our trade receivables as of the dates indicated:

	As at December 31	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Trade receivables		
– Due from related parties	47.4	50.9
– Due from third parties	7,748.9	6,013.2
Provision for impairment	(2,578.5)	(980.4)
<b>Total</b>	<b>5,217.8</b>	<b>5,083.7</b>

Our net trade receivables remained relatively stable as of December 31, 2022, compared to that as of December 31, 2021.

Trade receivables' aging analysis based on date of revenue recognition is as follows:

	As at December 31	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Up to 6 months	1,995.6	2,659.6
6 months to 1 year	746.1	1,048.8
1 to 2 years	3,244.9	1,402.8
2 to 3 years	1,180.0	852.1
More than 3 years	629.7	100.8
	<b>7,796.3</b>	<b>6,064.1</b>

As of December 31, 2022, the aging of our gross trade receivables has worsened, compared to that as of December 31, 2021. This was generally due to the negative impact from the COVID-19 pandemic which resulted in delays in customers' payments to us. We took a series of measures on the management of working capital, including implementation of cash collection related KPIs for our sales team, leveraging our industry position to negotiate more attractive payment terms with our customers and suppliers, and developing deeper relationships with more customers of strong credit profile.

The following table sets out the number of our trade receivables turnover days for the periods indicated:

	<b>Year ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Trade receivables turnover days <sup>(1)</sup>	<b><u>494</u></b>	<b><u>319</u></b>

*Note:*

- <sup>(1)</sup> Trade receivables turnover days for a period equals the average of the opening and closing net trade receivables balance divided by revenue for the same period and multiplied by 365 days.

We had relatively long and increasing trade receivables turnover days, primarily because a significant portion of our historical revenue was derived from Smart City, which typically features a long payment cycle as required by their internal financial management and payment approval processes. Our trade receivables turnover days have been further lengthened as the COVID-19 pandemic has caused disruptions and temporary budget constraints for some of our customers.

## Other Receivables

Our other receivables decreased from RMB329.2 million as of December 31, 2021 to RMB211.1 million as of December 31, 2022. The decrease was mainly attributable to reduced balance of payments on behalf of customers.

## LIQUIDITY AND FINANCIAL RESOURCES

We have historically funded our cash requirements principally from capital contribution from shareholders. We had cash and cash equivalents of RMB7,962.8 million and term deposits of RMB6,212.9 million as of December 31, 2022, compared to the balance of RMB16,529.5 million and RMB4,990.8 million as of December 31, 2021.

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

	Year ended December 31	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Net cash used in operating activities	<b>(3,084.5)</b>	(2,485.4)
Net cash used in investing activities	<b>(9,298.2)</b>	(1,548.1)
Net cash generated from financing activities	<b>3,329.1</b>	9,378.5
Net (decrease)/increase in cash and cash equivalents	<b>(9,053.6)</b>	5,345.0
Cash and cash equivalents at the beginning of the year	<b>16,529.5</b>	11,427.9
Exchange changes on cash and cash equivalents	<b>486.9</b>	(243.3)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<b><u>7,962.8</u></b>	<b><u>16,529.5</u></b>

### Net Cash Used in Operating Activities

Net cash generated from operating activities represents the cash generated from our operations minus the income tax paid. Cash generated from our operations primarily comprises our profit before income tax adjusted by non-cash items and changes in working capital.

For the year ended December 31, 2022, net cash used in operating activities was RMB3,084.5 million, which was primarily attributable to our loss before income tax, as adjusted by provision for impairment of financial assets and contract assets, depreciation and amortization and fair value losses on financial assets at fair value through profit or loss.

## **Net Cash Used in Investing Activities**

For the year ended December 31, 2022, net cash used in investing activities was RMB9,298.2 million, which was mainly attributable to purchase of property, plant and equipment, acquisition of debt and equity investments and net increase in investments in term deposits.

## **Net Cash Generated from Financing Activities**

For the year ended December 31, 2022, net cash generated from financing activities was RMB3,329.1 million, which was mainly attributable to proceeds from borrowings and net proceeds from our initial public offering's over-allotment option, partially offset by net changes in deposits from the issuance of bank borrowings.

## **Borrowings**

As of December 31, 2021 and December 31, 2022, we had total borrowings of RMB339.9 million and RMB3,228.6 million, respectively. Repayment analysis and the currency denomination of bank borrowings of the Group as at December 31, 2022 are set out in Note 14 to the consolidated financial statements.

The Group maintains a prudent approach in its treasury management with interest rate exposure maintained principally on a floating rate basis. The Group did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk. The Group will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arises.

## **Exposure to Exchange Rate Fluctuation**

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective Group entities' functional currency. The Company's functional currency is USD. The Company's primary subsidiaries were incorporated in Mainland China, Hong Kong, Japan and Singapore. These subsidiaries considered RMB, HKD, JPY and SGD as their functional currencies, respectively.

We are primarily exposed to changes in HKD/RMB and HKD/USD exchange rates. We currently do not engage in hedging activities designed or intended to manage foreign exchange rate risk. However, we will continue to monitor changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact.

## **Employees, Training and Remuneration Policies**

As at December 31, 2022, the Group had 5,098 employees. The number of employees employed by the Group varies from time to time depending on needs.

The Group formulates the remuneration package for its employees based on the overall remuneration standard in the market, industry practice and the Group's remuneration strategy. In addition to salary, in-house training programmes and employee benefits, employees may receive year-end performance incentives depending on their individual performance, which includes cash incentives or share options.

## **Use of Proceeds**

The Class B Shares of the Company were listed on the Main Board of the Stock Exchange on December 30, 2021. The net proceeds received by the Company from the Global Offering (as defined in the Prospectus), including the full exercise of the over-allotment option, were approximately HK\$6,351.0 million. There has been no change in the intended use of proceeds and the expected timeframe for utilisation as previously disclosed in the Prospectus. Please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus for details. As of December 31, 2021, the Group had not utilised any portion of the net proceeds.

As of December 31, 2022, approximately HK\$5,447.2 million of the net proceeds had been utilised by the Group in accordance with the intended purposes and expected timeframe stated in the Prospectus, and the unused net proceeds was held by way of bank deposits. The unused net proceeds will continue to be utilised in accordance with the intended purposes and expected timeframe as stated in the Prospectus.

Intended purposes as set out in the Prospectus	Planned proportion of the net proceeds	Planned use of the net proceeds	Net proceeds unused as of December 31, 2021	Actual use of net proceeds during the Reporting Year	Net proceeds unused as of December 31, 2022	Expected
						fully utilising the net proceeds from the Global Offering
	(%)	(Approximately HK\$ million)	(Approximately HK\$ million)	(Approximately HK\$ million)	(Approximately HK\$ million)	
(i) Enhancing our research and development capabilities	60.0	3,810.6	3,810.6	3,601.3	209.3	By end of 2023
(ii) Expansion of our business	15.0	952.7	952.7	258.2	694.5	By end of 2023
(iii) Pursuing strategic investment and acquisition opportunities	15.0	952.7	952.7	952.7	–	N.A.
(iv) Working capital and general corporate purposes	10.0	635.0	635.0	635.0	–	N.A.
<b>Total</b>	<b>100.0</b>	<b>6,351.0</b>	<b>6,351.0</b>	<b>5,447.2</b>	<b>903.8</b>	

The utilization of the net proceeds has been converted from RMB into HKD at an exchange rate of RMB0.81912 to HKD1.00 (being the reference exchange rate used in the Prospectus). No representation is made that any amount in HKD or RMB could have been or could be converted at the above rates or of any other rates.

### Gearing Ratio

As at December 31, 2022, our gearing ratio was -11.7%, which represented a net cash position. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings, lease liabilities and preferred share and other financial liabilities less our cash and cash equivalents. Total capital is calculated as total equity plus net debt.

### **Contingent Liabilities**

As of December 31, 2022, we did not have any material contingent liabilities.

### **Significant Investments held**

As of December 31, 2022, we did not hold any significant investments in the equity interest of other companies.

### **Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures**

For the year ended December 31, 2022, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

### **Pledge of Assets**

As of December 31, 2022, we pledged certain buildings and land use rights with carrying amount of RMB4,440.8 million and restricted guarantee deposits amounting to RMB271.4 million for borrowings.

### **Future Plans for Material Investments and Capital Assets**

As of December 31, 2022, we have no specific future plan for material investments and acquisition of capital assets. The Group will continue to identify new investment opportunities in companies with principal businesses related to the Group's core business with a view to creating synergies with the Group's existing core business and improve the Group's service and products to its customers.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

		<b>Year ended December 31,</b>	
		<b>2022</b>	<b>2021</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	4	<b>3,808,510</b>	4,700,263
Cost of sales	5	<u><b>(1,266,243)</b></u>	<u>(1,422,625)</u>
<b>Gross profit</b>		<b>2,542,267</b>	3,277,638
Selling expenses	5	<b>(900,787)</b>	(681,584)
Administrative expenses	5	<b>(1,567,739)</b>	(2,298,362)
Research and development expenses	5	<b>(4,014,337)</b>	(3,614,140)
Net impairment losses on financial assets and contract assets		<b>(1,667,671)</b>	(517,608)
Other income		<b>447,255</b>	504,280
Other losses – net	6	<u><b>(1,367,311)</b></u>	<u>(399,958)</u>
<b>Operating loss</b>		<b>(6,528,323)</b>	(3,729,734)
Finance income		<b>260,546</b>	187,716
Finance cost		<u><b>(55,438)</b></u>	<u>(33,758)</u>
<b>Finance income – net</b>		<b>205,108</b>	153,958
Share of losses of investments accounted for using the equity method		<b>(2,357)</b>	(40,231)
Fair value losses of preferred share and other financial liabilities		<u><b>(7,240)</b></u>	<u>(13,525,537)</u>
<b>Loss before income tax</b>		<b>(6,332,812)</b>	(17,141,544)
Income tax credit/(expense)	7	<u><b>239,822</b></u>	<u>(35,506)</u>
<b>Loss for the year</b>		<u><b>(6,092,990)</b></u>	<u>(17,177,050)</u>
<b>Loss is attributable to:</b>			
Equity holders of the Company		<b>(6,044,796)</b>	(17,140,086)
Non-controlling interests		<u><b>(48,194)</b></u>	<u>(36,964)</u>
		<u><b>(6,092,990)</b></u>	<u>(17,177,050)</u>
<b>Loss per share for loss attributable to equity holders of the Company</b>			
Basic and diluted loss per share (RMB)	8	<u><b>(0.19)</b></u>	<u>(1.74)</u>

**CONSOLIDATED STATEMENT OF COMPREHANSIVE LOSS**  
*FOR THE YEAR ENDED DECEMBER 31, 2022*

	<b>Year ended December 31,</b>	
	<b>2022</b>	2021
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
<b>Loss for the year</b>	<u><b>(6,092,990)</b></u>	<u>(17,177,050)</u>
<b>Other comprehensive income</b>		
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<b>(1,568,202)</b>	201,501
<i>Items that will not be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<b>3,516,694</b>	684,637
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	<u><b>(3,155)</b></u>	<u>(128,297)</u>
<b>Other comprehensive income for the year, net of taxes</b>	<u><b>1,945,337</b></u>	<u>757,841</u>
<b>Total comprehensive loss for the year</b>	<u><b>(4,147,653)</b></u>	<u>(16,419,209)</u>
Total comprehensive loss for the year is attributable to:		
Equity holders of the Company	<b>(4,096,716)</b>	(16,382,245)
Non-controlling interests	<u><b>(50,937)</b></u>	<u>(36,964)</u>
	<u><b>(4,147,653)</b></u>	<u>(16,419,209)</u>

**CONSOLIDATED BALANCE SHEET**  
AS AT DECEMBER 31, 2022

		As at December 31,	
	Note	2022 RMB'000	2021 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	6,999,010	2,909,263
Right-of-use assets		315,094	432,164
Intangible assets		332,887	224,586
Contract assets		22,999	20,335
Investments accounted for using the equity method		54,241	26,930
Deferred income tax assets		689,697	457,199
Restricted cash		271,392	–
Financial assets at fair value through profit or loss	12	6,676,533	4,310,970
Long-term receivables		357,952	306,860
Other non-current assets		183,009	171,795
		<u>15,902,814</u>	<u>8,860,102</u>
<b>Current assets</b>			
Inventories		617,110	496,144
Contract assets		27,231	19,023
Trade, other receivables and prepayments	11	6,071,675	5,775,885
Financial assets at fair value through profit or loss	12	632,124	272,549
Restricted cash		348	319
Term deposits		6,212,878	4,990,791
Cash and cash equivalents		7,962,813	16,529,506
		<u>21,524,179</u>	<u>28,084,217</u>
<b>Total assets</b>		<u><b>37,426,993</b></u>	<u><b>36,944,319</b></u>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		5	5
Other reserves		71,248,900	70,077,626
Currency translation reserves		3,915,328	1,964,093
Accumulated losses		(46,194,009)	(40,149,213)
		<u>28,970,224</u>	<u>31,892,511</u>
<b>Non-controlling interests</b>		<u>43,636</u>	<u>94,573</u>
<b>Total equity</b>		<u><b>29,013,860</b></u>	<u><b>31,987,084</b></u>

		<b>As at December 31,</b>	
		<b>2022</b>	<b>2021</b>
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>14</i>	<b>2,907,153</b>	339,505
Lease liabilities		<b>105,228</b>	228,802
Deferred income tax liabilities		<b>9,593</b>	43,316
Contract liabilities		<b>74,553</b>	37,550
Deferred revenue		<b>307,593</b>	140,251
Preferred share and other financial liabilities		<b>1,395,814</b>	1,072,583
Long-term payables		<b>11,611</b>	44,955
Put option liability		<b>278,584</b>	255,028
		<u><b>5,090,129</b></u>	<u>2,161,990</u>
<b>Current liabilities</b>			
Borrowings	<i>14</i>	<b>321,461</b>	383
Trade and other payables	<i>13</i>	<b>2,472,581</b>	2,290,258
Lease liabilities		<b>183,002</b>	155,495
Contract liabilities		<b>207,571</b>	172,131
Deferred revenue		<b>120,635</b>	171,130
Current income tax liabilities		<b>17,754</b>	5,848
		<u><b>3,323,004</b></u>	<u>2,795,245</u>
<b>Total liabilities</b>		<u><b>8,413,133</b></u>	<u>4,957,235</u>
<b>Total equity and liabilities</b>		<u><b>37,426,993</b></u>	<u>36,944,319</u>
<b>Net current assets</b>		<u><b>18,201,175</b></u>	<u>25,288,972</u>
<b>Total assets less current liabilities</b>		<u><b>34,103,989</b></u>	<u>34,149,074</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*AS AT DECEMBER 31, 2022*

	Equity attributable to equity holders of the Company					Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Currency translation reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
<b>As at January 1, 2022</b>	5	70,077,626	1,964,093	(40,149,213)	31,892,511	94,573	31,987,084
<b>Comprehensive loss</b>							
Loss for the year	-	-	-	(6,044,796)	(6,044,796)	(48,194)	(6,092,990)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	-	(3,155)	-	-	(3,155)	-	(3,155)
Exchange differences on translation of foreign operations	-	-	1,951,235	-	1,951,235	(2,743)	1,948,492
<b>Total comprehensive loss</b>	-	(3,155)	1,951,235	(6,044,796)	(4,096,716)	(50,937)	(4,147,653)
<b>Transactions with equity holders</b>							
Exercise of restricted shares and share options	-	86,395	-	-	86,395	-	86,395
Exercise of over-allotment option	*	692,807	-	-	692,807	-	692,807
Repurchase of ordinary shares	(*)	(69,246)	-	-	(69,246)	-	(69,246)
Share-based compensation	-	464,473	-	-	464,473	-	464,473
<b>Total transactions with equity holders</b>	-	1,174,429	-	-	1,174,429	-	1,174,429
<b>As at December 31, 2022</b>	5	71,248,900	3,915,328	(46,194,009)	28,970,224	43,636	29,013,860

\* represents that the amount is less than RMB1,000 for the year.

	(Deficits)/equity attributable to equity holders of the Company						Total (deficits)/ equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Currency translation reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non- controlling interests RMB'000	
<b>As at January 1, 2021</b>	<u>2</u>	<u>(432,856)</u>	<u>1,077,955</u>	<u>(21,713,334)</u>	<u>(21,068,233)</u>	<u>135,693</u>	<u>(20,932,540)</u>
<b>Comprehensive loss</b>							
Loss for the year	-	-	-	(17,140,086)	(17,140,086)	(36,964)	(17,177,050)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	-	(128,297)	-	-	(128,297)	-	(128,297)
Exchange differences on translation of foreign operations	-	-	886,138	-	886,138	-	886,138
<b>Total comprehensive loss</b>	<u>-</u>	<u>(128,297)</u>	<u>886,138</u>	<u>(17,140,086)</u>	<u>(16,382,245)</u>	<u>(36,964)</u>	<u>(16,419,209)</u>
<b>Transactions with equity holders</b>							
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	*	4,610,673	-	-	4,610,673	-	4,610,673
Issuance of ordinary shares for share- based compensation plan	*	(*)	-	-	-	-	-
Conversion of convertible redeemable preferred shares to Class B ordinary shares	3	64,374,173	-	(1,296,414)	63,077,762	-	63,077,762
Exercise of restricted shares and share options	-	73,409	-	-	73,409	-	73,409
Capital contribution by controlling shareholder	-	10,365	-	-	10,365	-	10,365
Consideration paid to the then equity holders for acquisition of subsidiaries under common control	-	(13,766)	-	-	(13,766)	-	(13,766)
Share-based compensation	-	1,583,925	-	-	1,583,925	-	1,583,925
Transactions with non-controlling shareholders	-	-	-	-	-	(8,983)	(8,983)
Warrant granted to a third party which was recognised as an equity instrument	-	-	-	-	-	4,827	4,827
Others	-	-	-	621	621	-	621
<b>Total transactions with equity holders</b>	<u>3</u>	<u>70,638,779</u>	<u>-</u>	<u>(1,295,793)</u>	<u>69,342,989</u>	<u>(4,156)</u>	<u>69,338,833</u>
<b>As at December 31, 2021</b>	<u>5</u>	<u>70,077,626</u>	<u>1,964,093</u>	<u>(40,149,213)</u>	<u>31,892,511</u>	<u>94,573</u>	<u>31,987,084</u>

\* represents that the amount is less than RMB1,000 for the year.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Cash flows from operating activities</b>		
Cash used in operations	<b>(3,073,538)</b>	(2,447,650)
Income tax paid	<b>(10,945)</b>	(37,791)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(3,084,483)</b>	(2,485,441)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<b>(4,890,289)</b>	(1,073,109)
Purchase of intangible assets	<b>(276,838)</b>	(192,404)
Proceeds from disposal of property, plant and equipment	<b>4,514</b>	8,402
Increase in investments accounted for using the equity method	<b>(31,500)</b>	(1,000)
Dividend and interest received from financial assets at fair value through profit and loss	<b>18,307</b>	6,154
Acquisition of debt and equity investments	<b>(3,465,067)</b>	(1,319,018)
Disposal of debt and equity investments	<b>386,038</b>	90,083
Net (increase)/decrease in investments in term deposits	<b>(890,896)</b>	942,362
Interest received from banks	<b>200,961</b>	131,219
Acquisition of structured deposits	<b>(5,763,000)</b>	(15,429,000)
The intention money paid for purchase of an office property	<b>(200,000)</b>	–
The intention money returned for purchase of an office property	<b>200,000</b>	–
Disposal of structured deposits	<b>5,424,590</b>	15,235,034
Repayments of loans granted to third parties and related parties	<b>–</b>	53,203
Loans granted to a related party	<b>(15,037)</b>	–
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(9,298,217)</b>	(1,548,074)
	<hr/>	<hr/>

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Cash flows from financing activities</b>		
Net proceeds from issuance of ordinary shares relating to the initial public offering by deduction of the underwriting commission	–	4,643,021
Proceeds from borrowings	<b>2,969,496</b>	363,147
Repayments of borrowings	<b>(83,300)</b>	(1,038,467)
Interest paid	<b>(43,424)</b>	(20,130)
Principal elements of lease payments	<b>(151,177)</b>	(127,488)
Interest elements of lease payments	<b>(16,859)</b>	(13,841)
Repayments of amount due to preferred shareholders	–	(5,206,029)
Payment of purchase of non-controlling interests	–	(8,983)
Proceeds from issuance of preferred share liabilities by the Company	–	9,202,353
Proceeds from issuance of preferred shares by a subsidiary	–	988,234
Capital injection by limited partners of investment fund controlled by the Group	<b>204,000</b>	85,000
Repurchase of warrant liability	–	(17,045)
Increase in restricted cash for the issuance of bank borrowings	<b>(365,425)</b>	–
Decrease in restricted cash for the issuance of bank borrowings	<b>108,438</b>	493,045
Consideration paid to the then equity holders for acquisition of subsidiaries under common control	–	(13,766)
Net proceeds from exercise of over-allotment option	<b>692,807</b>	–
Payment of the listing expenses which was deducted from equity	<b>(2,562)</b>	(4,729)
Repurchase of ordinary shares	<b>(69,246)</b>	–
Proceeds from exercise of restricted shares and share options	<b>86,395</b>	43,795
Capital contribution by the controlling shareholder	–	10,365
<b>Net cash generated from financing activities</b>	<b>3,329,143</b>	9,378,482
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(9,053,557)</b>	5,344,967
Cash and cash equivalents at beginning of year	<b>16,529,506</b>	11,427,871
Effect of foreign exchange rates changes	<b>486,864</b>	(243,332)
<b>Cash and cash equivalents at end of year</b>	<b>7,962,813</b>	16,529,506

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

SenseTime Group Inc. (the “**Company**”) was incorporated in the Cayman Islands on October 15, 2014 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Tricor Services (Cayman Islands) Limited, of Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the “**Group**”), including the consolidated affiliated entities (collectively, the “**Group**”), are the sale of advanced artificial intelligence (“**AI**”) software, sale of AI software platform and related services, sale of software-embedded hardware and related services, AIDC service as well as research and development activities in relation to AI technology mainly in the People’s Republic of China (the “**PRC**”), Northeast Asia, Southeast Asia and other geographical areas.

The Group is a leading AI software company with customers across a broad spectrum of industries.

The ultimate holding company of the Company is Amind Inc., the ultimate controlling shareholder of the Company is Professor Tang Xiao’ou (湯曉鷗教授, “**Prof. Tang**”), which was incorporated in the Cayman Islands. The registered office of Amind Inc. is situated at P.O. Box 2075, #30 The Strand, 46 Canal Point Drive, Grand Cayman KY1-1105, Cayman Islands.

On December 30, 2021, the Company has successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited.

### 2 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities which measured at fair value.

### 3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

#### (a) Amendments to standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018–2020	

The adoption of these amended standards does not have significant impact on the consolidated financial statements of the Group.

#### (b) New standards, amendments and interpretations not yet adopted

The followings new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2023 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial information of the Group.

	<b>Effective for accounting periods beginning on or after</b>
IFRS 17 Insurance Contracts	January 1, 2023
IAS 1 and IFRS Practice Statement 2 (Amendment) – Disclosure of Accounting Policies	January 1, 2023
IAS 8 (Amendment) – Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction Tax	January 1, 2023
IFRS 17 and IFRS 9 (Amendment) – Initial Application of IFRS 17 and IFRS 9 – Comparative Information	January 1, 2023
IAS 1 (Amendment) – Classification of Liabilities as Current or Non-current	January 1, 2024
IFRS 16 (Amendment) – Leases liability in a sale and leaseback	January 1, 2024
IAS 1 (Amendment) – Non-current liabilities with covenants	January 1, 2024
Amendment to IFRS 10 and IAS 28 regarding sales or contribution assets between an investor and its associate or joint venture	To be determined

#### 4 SEGMENT INFORMATION

The Company develops software and hardware products for different industry verticals and use cases based on the same AI infrastructure platform and model training framework. The technologies and nature of the products of different business lines are substantially similar. The executive directors of the Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance did not segregate operating segment financial information and the executive directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

##### (a) Revenue by geographical

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in four principal geographical areas of the world. The following table shows the Group's total consolidated revenue by location of the customers for the year ended December 31, 2022:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Mainland China	3,168,880	4,147,620
Northeast Asia	521,866	365,759
Southeast Asia	95,860	56,944
Others*	21,904	129,940
	<u>3,808,510</u>	<u>4,700,263</u>

\* Other geographical areas mainly represented Hong Kong China and Middle East.

##### (b) Non-current assets by geographical

The total of the non-current assets including property, plant and equipment, right-of-use assets and intangible assets as at December 31, 2022, broken down by the location of the assets, is as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Mainland China	7,498,318	3,310,770
Northeast Asia	66,301	74,633
Southeast Asia	27,054	62,392
Others*	55,318	118,218
	<u>7,646,991</u>	<u>3,566,013</u>

\* Other geographical areas mainly represented Hong Kong China and Middle East.

(c) **Information about major customers**

The major customers which contributed more than 10% of total revenue of the Group for the year ended December 31, 2022 are listed as below:

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Percentage of revenue from the major customers to the total revenue of the Group</b>		
Client A	<b>15.20%</b>	11.68%
Client B	*	10.73%

\* the amount of aggregate revenue from this customer is less than 10% of the total revenue for the year.

(d) **Disaggregation of revenue**

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is as follows:

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>		
– recognised point in time	<b>3,543,301</b>	4,364,889
– recognised over time	<b>265,209</b>	335,374
	<b>3,808,510</b>	4,700,263

(e) During the year ended December 31, 2022, the Group determines revenue should be reported on a gross or net basis based on principle/agent assessment and revenue are primarily reported on a gross basis.

## 5 EXPENSES BY NATURE

The expenses charged to cost of sales, selling expenses, administrative expenses and research and development expenses are analysed below:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Employee benefit expenses	4,012,452	4,577,655
Hardware costs and project subcontracting service fees	1,118,932	1,265,429
Depreciation and amortisation ( <i>Note 10</i> )	967,685	657,830
Professional service and other consulting fees	800,666	659,612
Server operation and cloud-based service fees	250,985	201,730
Marketing, conference and travelling expenses	247,663	183,710
Utilities, property management and administrative expenses	168,912	105,525
Data labelling fees	59,895	53,362
Research and development tools and consumables	42,509	52,140
Auditor's remuneration		
– Audit services	15,365	11,626
– Non-audit services	4,100	4,230
Listing expenses	–	134,579
Other expenses	59,942	109,283
	<b>7,749,106</b>	<b>8,016,711</b>

- (a) During the year ended December 31, 2022, employee benefits expenses included the share-based compensation expenses of RMB464,473,000 (for the year ended December 31, 2021: RMB1,583,925,000).

## 6 OTHER LOSSES – NET

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value losses on financial assets at fair value through profit or loss ( <i>Note 12</i> )	(885,078)	(514,661)
Changes on net asset value of investment funds attributable to limited partners	(17,188)	–
Realisation of gains from downstream transactions from associates	151	151
Donations	(12,703)	(8,909)
Net foreign exchange (losses)/gains	(453,432)	132,435
Losses on disposal of property, plant and equipment and intangible assets	(1,390)	(5,189)
Gains on early termination of leasing contracts	3,296	–
Others	(967)	(3,785)
	<b>(1,367,311)</b>	<b>(399,958)</b>

## 7 INCOME TAX (CREDIT)/EXPENSE

### (i) Cayman Islands

The Company was redomiciled in the Cayman Islands in 2014 as an exempted company with limited liability, and is exempted from Cayman Islands income tax under the current tax laws of the Cayman Islands. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

### (ii) British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

### (iii) Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the year ended December 31, 2022 (2021: 16.5%).

### (iv) Singapore

Singapore income tax rate is 17%. A concessionary rate of 5% was granted by Singapore Economic Development Board for a period of 5 years starting from January 1, 2019 for income derived from qualifying activities. No Singapore profits tax was provided for as there was no estimated assessable profit that was subject to Singapore profits tax for the year ended December 31, 2022 (2021: 17%, 5%).

### (v) Japan

Enterprises incorporated in Japan are subject to income tax rate at the state level of 23.2% for the year ended December 31, 2022 (2021: 23.2%).

### (vi) Malaysia

Malaysia income tax rate is 24% for the year ended December 31, 2022 (2021: 24%). In the case that the paid-up capital is Malaysian Ringgit (“MYR”) 2.5 million or less, and the gross income from business is not more than MYR50 million, the income tax rate on the first MYR0.6 million chargeable income is 17% and the part in excess of MYR0.6 million is 24%.

### (vii) Saudi Arabia

Enterprises incorporated in Saudi Arabia are subject to income tax rate of 20% for the year ended December 31, 2022 (2021: 20%).

**(viii) PRC corporate income tax (“CIT”)**

The income tax provision of the Group in respect of its operations in the mainland China was subject to statutory tax rate of 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

Beijing SenseTime Technology Development Co., Ltd. (北京市商湯科技開發有限公司, “**Beijing SenseTime**”), Shenzhen SenseTime Technology Co., Ltd. (深圳市商湯科技有限公司, “**Shenzhen SenseTime**”), Shanghai SenseTime Intelligent Technology Co., Ltd. (上海商湯智能科技有限公司, “**Shanghai SenseTime**”) and Shanghai Lingang Senseauto Intelligent Technology Co., Ltd. (上海臨港絕影智能科技有限公司, “**Shanghai Lingang**”) were qualified as “High and New Technology Enterprises” (“**HNTEs**”) under the relevant PRC laws and regulations. Accordingly, these entities were entitled to a preferential income tax rate of 15% in 2022. This status is subject to a requirement that Beijing SenseTime, Shenzhen SenseTime, Shanghai SenseTime and Shanghai Lingang reapply for HNTEs status every three years.

Shanghai Lingang, Shanghai SenseTime Technology Development Co., Ltd. (上海商湯科技開發有限公司), Shenzhen Tetras.AI Technology Co., Ltd. (深圳市慧鯉科技有限公司) and Shenzhen SenseTime were registered in such special zones and were entitled to a preferential income tax rate of 15% by the local government.

**(ix) PRC Withholding Tax (“WHT”)**

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the year ended December 31, 2022, no deferred income tax liability on WHT was accrued as at the end of each reporting period because the subsidiaries of the Group were accumulated losses making in these periods (2021: Nil).

The Group shall be subject to withholding tax in respect of the taxable income derived from the provision of technical services between the subsidiaries across the countries, the applicable tax rate is 25% applied with a deemed profit rate according to the PRC tax regulation.

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB’000</b>	<b>RMB’000</b>
Current income tax	<b>22,714</b>	7,269
Deferred income tax	<b>(262,536)</b>	28,237
Income tax (credit)/expense	<b>(239,822)</b>	<b>35,506</b>

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Loss before tax	<b>(6,332,812)</b>	(17,141,544)
Tax calculated at statutory tax rates applicable to each group entity	<b>(998,577)</b>	(462,494)
Tax effects of:		
Super deduction for research and development expenses (a)	<b>(218,342)</b>	(188,591)
Income not subject to tax	<b>(25,357)</b>	(44,453)
Associates and joint ventures' results reported net of tax	<b>368</b>	6,408
Expenses not deductible for tax purpose (b)	<b>177,044</b>	275,399
Changes in income tax rate as a result of qualifying for HNTEs (c)	–	109,899
Tax losses for which no deferred income tax asset was recognised (d)	<b>562,009</b>	260,721
Other temporary difference for which no deferred income tax asset was recognised	<b>164,624</b>	46,927
Accrued withholding tax	<b>15,806</b>	6,244
Under provision of income tax final settlement difference of previous year	<b>2,310</b>	4,716
Over provision of income tax final settlement difference of previous year	<b>(25)</b>	(96)
Reversal of previously recognised deferred tax assets for tax losses and temporary differences	<b>76,739</b>	18,872
Others	<b>3,579</b>	1,954
	<b>(239,822)</b>	<b>35,506</b>
Tax (credit)/expense	<b>(239,822)</b>	<b>35,506</b>

**(a) Super deduction for research and development expenses**

According to the relevant laws and regulations promulgated by the State Taxation Administration of the PRC, for the period from January 1, 2022 to September 30, 2022, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year; for the period from October 1, 2022 to December 31, 2022, enterprises engaging in research and development activities are entitled to claim 200% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (collectively, “**Super deduction**”).

**(b) Expenses not deductible for tax purpose**

Expenses not deductible for tax purpose include share base payment expenses, business entertainment expenses exceeding threshold, employee commercial insurance expenses, non-deductible donations etc.

(c) *Tax losses for which no deferred income tax assets was recognised*

The Group only recognised deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at December 31, 2022, the Group did not recognise deferred income tax assets of RMB1,357,648,000 (2021: RMB727,698,000). The expiration dates of unused tax losses for which no deferred tax asset has been recognised are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
2023	8,162	8,162
2024	87,797	87,797
2025	339,949	177,775
2026	919,258	614,259
2027	1,940,533	49,395
2028	416,029	418,653
2029	963,974	963,974
2030	688,746	688,746
2031	587,216	571,523
2032	841,191	–
Indefinitely	911,467	668,920
	<u>7,704,322</u>	<u>4,249,204</u>

## 8 LOSS PER SHARE

### Basic

The basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares (excluding treasury shares) issued during the year ended December 31, 2022:

	Year ended December 31,	
	2022	2021
Loss attributable to equity holders of the Company (RMB'000)	(6,044,796)	(17,140,086)
Weighted average number of ordinary shares in issue (thousand)	<u>31,932,411</u>	<u>9,871,265</u>
Basic loss per share (expressed in RMB per share)	<u>(0.19)</u>	<u>(1.74)</u>

### Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: preferred shares issued by a subsidiary of the Company, restricted share units (“RSUs”) and share options. As the Group incurred losses for the year ended December 31, 2022, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the year ended December 31, 2022 is the same as basic loss per share of the respective year (2021: same as basic loss per share of the respective year).

## 9 DIVIDENDS

No dividend had been declared or paid by the Company during the year ended December 31, 2022 (2021: Nil).

## 10 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Large-scale electronic equipment <i>RMB'000</i>	Computers and related equipment <i>RMB'000</i>	Office equipment and furniture <i>RMB'000</i>	Transportation equipment and vehicles <i>RMB'000</i>	Other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At January 1, 2022</b>									
Cost	974,306	216,957	1,476,998	424,198	42,977	44,509	19,451	805,856	4,005,252
Accumulated depreciation	(89,710)	(149,972)	(559,384)	(263,372)	(15,234)	(15,011)	(3,306)	-	(1,095,989)
<b>Net book amount</b>	<b>884,596</b>	<b>66,985</b>	<b>917,614</b>	<b>160,826</b>	<b>27,743</b>	<b>29,498</b>	<b>16,145</b>	<b>805,856</b>	<b>2,909,263</b>
<b>Year ended December 31, 2022</b>									
Opening net book amount	884,596	66,985	917,614	160,826	27,743	29,498	16,145	805,856	2,909,263
Additions	3,267,334	8,209	952,362	187,851	18,260	8,416	8,373	290,359	4,741,164
Internal transfer	321,781	10,315	305,575	2,587	804	3,947	10,108	(655,117)	-
Disposals	(1,446)	(77)	(985)	(554)	(439)	(2)	(1,043)	(1,358)	(5,904)
Depreciation charge	(56,751)	(42,496)	(403,305)	(120,129)	(8,623)	(10,217)	(3,370)	-	(644,891)
Currency translation differences	(1,066)	820	1,270	(205)	(268)	(353)	(758)	(62)	(622)
<b>Closing net book amount</b>	<b>4,414,448</b>	<b>43,756</b>	<b>1,772,531</b>	<b>230,376</b>	<b>37,477</b>	<b>31,289</b>	<b>29,455</b>	<b>439,678</b>	<b>6,999,010</b>
<b>At December 31, 2022</b>									
Cost	4,561,346	236,224	2,733,558	603,069	61,054	56,438	34,945	439,678	8,726,312
Accumulated depreciation	(146,898)	(192,468)	(961,027)	(372,693)	(23,577)	(25,149)	(5,490)	-	(1,727,302)
<b>Net book amount</b>	<b>4,414,448</b>	<b>43,756</b>	<b>1,772,531</b>	<b>230,376</b>	<b>37,477</b>	<b>31,289</b>	<b>29,455</b>	<b>439,678</b>	<b>6,999,010</b>

	Buildings and facilities RMB'000	Leasehold improvement RMB'000	Large-scale electronic equipment RMB'000	Computers and related equipment RMB'000	Office equipment and furniture RMB'000	Transportation equipment and vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>At January 1, 2021</b>									
Cost	961,217	197,328	869,086	341,562	41,677	27,140	4,819	132,364	2,575,193
Accumulated depreciation	(45,093)	(101,026)	(340,947)	(164,284)	(10,602)	(6,270)	(492)	-	(668,714)
<b>Net book amount</b>	<b>916,124</b>	<b>96,302</b>	<b>528,139</b>	<b>177,278</b>	<b>31,075</b>	<b>20,870</b>	<b>4,327</b>	<b>132,364</b>	<b>1,906,479</b>
<b>Year ended December 31, 2021</b>									
Opening net book amount	916,124	96,302	528,139	177,278	31,075	20,870	4,327	132,364	1,906,479
Additions	-	20,865	615,334	98,659	2,448	11,685	9,048	721,290	1,479,329
Internal transfer	15,334	14,128	262	6,064	471	6,041	4,920	(47,220)	-
Disposals	(137)	-	(3,977)	(8,895)	(212)	(93)	(277)	-	(13,591)
Depreciation charge	(44,720)	(64,120)	(221,655)	(110,795)	(5,026)	(8,885)	(1,873)	-	(457,074)
Currency translation differences	(2,005)	(190)	(489)	(1,485)	(1,013)	(120)	-	(578)	(5,880)
<b>Closing net book amount</b>	<b>884,596</b>	<b>66,985</b>	<b>917,614</b>	<b>160,826</b>	<b>27,743</b>	<b>29,498</b>	<b>16,145</b>	<b>805,856</b>	<b>2,909,263</b>
<b>At December 31, 2021</b>									
Cost	974,306	216,957	1,476,998	424,198	42,977	44,509	19,451	805,856	4,005,252
Accumulated depreciation	(89,710)	(149,972)	(559,384)	(263,372)	(15,234)	(15,011)	(3,306)	-	(1,095,989)
<b>Net book amount</b>	<b>884,596</b>	<b>66,985</b>	<b>917,614</b>	<b>160,826</b>	<b>27,743</b>	<b>29,498</b>	<b>16,145</b>	<b>805,856</b>	<b>2,909,263</b>

- (a) As at December 31, 2022, certain buildings with carrying amount of RMB4,376,326,000 (December 31, 2021: RMB854,796,000) were pledged as collaterals for the Group's borrowings (Note 14).
- (b) During the year ended December 31, 2022, the amounts of depreciation expense charged to research and development expenses, administrative expenses, selling expenses and cost of sales are as follows:

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Depreciation of property, plant and equipment		
- Research and development expenses	<b>458,755</b>	307,357
- Administrative expenses	<b>126,389</b>	127,489
- Selling expenses	<b>20,338</b>	22,228
- Cost of sales	<b>39,409</b>	-
Depreciation expenses charged to profit or loss	<b>644,891</b>	457,074

## 11 TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivables <i>(i)</i>	80,673	147,687
Provision for impairment	<u>(49,031)</u>	<u>(49,115)</u>
	<u>31,642</u>	<u>98,572</u>
Trade receivables <i>(ii)</i>		
– Due from related parties	47,405	50,907
– Due from third parties	<u>7,748,873</u>	<u>6,013,240</u>
Gross trade receivables	7,796,278	6,064,147
Provision for impairment	<u>(2,578,516)</u>	<u>(980,402)</u>
	<u>5,217,762</u>	<u>5,083,745</u>
Other receivables <i>(iii)</i>		
– Refundable deposits <i>(a)</i>	63,407	101,783
– Loans to related parties <i>(b)</i>	15,959	666
– Payments on behalf of customers <i>(c)</i>	429,475	511,095
– Others <i>(d)</i>	<u>73,237</u>	<u>65,306</u>
Gross other receivables	582,078	678,850
Provision for impairment <i>(e)</i>	<u>(370,941)</u>	<u>(349,615)</u>
	<u>211,137</u>	<u>329,235</u>
Prepayments	107,587	105,355
Input VAT to be deducted	<u>503,547</u>	<u>158,978</u>
Total trade, other receivables and prepayments	<u><b>6,071,675</b></u>	<u><b>5,775,885</b></u>

As at December 31, 2022, the fair value of trade and other receivables of the Group, except for the prepayments and input VAT to be deducted which are not financial assets, approximated their carrying amounts.

The carrying amounts of the Group's trade, other receivables and prepayments, excluding provision for impairment, are denominated in the following currencies:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
RMB	8,514,755	6,739,321
HKD	230,942	47,525
SGD	139,142	131,866
USD	107,890	158,566
SAR	53,778	–
MYR	13,394	45,881
JPY	5,583	24,040
Others	4,679	7,818
	<u>9,070,163</u>	<u>7,155,017</u>

(i) **Notes receivables**

The aging analysis of the notes receivables based on date of revenue recognition is as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Bank's notes receivables		
– Up to 6 months	31,673	98,613
Commercial notes receivables		
– 6 months to 1 year	–	49,074
– 1 to 2 years	49,000	–
	<u>80,673</u>	<u>147,687</u>

(ii) **Trade receivables**

The credit terms given to trade customers are determined on an individual basis with normal credit period mainly around 90 to 270 days. The aging analysis of the trade receivables based on date of revenue recognition is as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Up to 6 months	1,995,560	2,659,645
6 months to 1 year	746,068	1,048,809
1 to 2 years	3,244,937	1,402,755
2 to 3 years	1,179,960	852,127
More than 3 years	629,753	100,811
	<u>7,796,278</u>	<u>6,064,147</u>

Due to the short-term nature of the current receivables, their carrying amounts are considered to be approximately the same as their fair values.

The Group does not hold any collateral as security over these debtors.

### ***Impairment and risk exposure***

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance for trade receivables as at December 31, 2022 are determined as follows:

As at December 31, 2022, the loss allowance of individually impaired trade receivables is determined as follows:

<b>Individual</b>	<b>Trade receivables RMB'000</b>	<b>Expected credit loss rate %</b>	<b>Loss allowance RMB'000</b>	<b>Reason</b>
Trade receivables	<u>579,695</u>	<u>18.02%</u>	<u>(104,489)</u>	The likelihood of recovery

As at December 31, 2022, the loss allowance of collectively impaired trade receivables is determined as follows:

<b>At December 31, 2022</b>	<b>Up to 6 months</b>	<b>6 months to 1 year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>3 to 4 years</b>	<b>Over 4 years</b>	<b>Total</b>
Expected credit loss rate	11.21%	22.62%	37.40%	53.31%	76.55%	100.00%	N.A.
Gross carrying amount – trade receivables (RMB'000)	<u>1,994,466</u>	<u>657,758</u>	<u>2,996,192</u>	<u>977,549</u>	<u>557,577</u>	<u>33,041</u>	<u>7,216,583</u>
Loss allowance (RMB'000)	<u>(223,548)</u>	<u>(148,785)</u>	<u>(1,120,672)</u>	<u>(521,129)</u>	<u>(426,852)</u>	<u>(33,041)</u>	<u>(2,474,027)</u>

As at December 31, 2021, the loss allowance of individually impaired trade receivables is determined as follows:

<b>Individual</b>	<b>Trade receivables RMB'000</b>	<b>Expected credit loss rate %</b>	<b>Loss allowance RMB'000</b>	<b>Reason</b>
Trade receivables	<u>49,337</u>	<u>36.57%</u>	<u>(18,041)</u>	The likelihood of recovery

As at December 31, 2021, the loss allowance of collectively impaired trade receivables is determined as follows:

<b>At December 31, 2021</b>	<b>Up to 6 months</b>	<b>6 months to 1 year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>3 to 4 years</b>	<b>Over 4 years</b>	<b>Total</b>
Expected credit loss rate	4.17%	11.82%	24.69%	38.58%	57.97%	100.00%	N.A.
Gross carrying amount – trade receivables (RMB'000)	<u>2,657,858</u>	<u>1,046,239</u>	<u>1,361,787</u>	<u>849,271</u>	<u>84,313</u>	<u>15,342</u>	<u>6,014,810</u>
Loss allowance (RMB'000)	<u>(110,707)</u>	<u>(123,628)</u>	<u>(336,175)</u>	<u>(327,633)</u>	<u>(48,876)</u>	<u>(15,342)</u>	<u>(962,361)</u>

**(iii) Other receivables**

**(a) Refundable deposits**

Refundable deposits consist primarily of security deposits for rental and projects.

**(b) Loans to related parties**

The loans to related parties represent the loans granted to related parties for their general business operations by the Group previously. These loans were repayable on demand.

**(c) Payments on behalf of customers**

Payments on behalf of customers represent receivables arising from the sales transactions the Group acting as an agent. The Group assessed whether revenue should be reported on a gross or net basis for each sales transaction. For certain sales transactions where the Group acts as agent during the year ended December 31, 2022, revenue is recorded on a net basis and the receivables arising from these transactions were recorded in other receivables.

**(d) Others**

Others primarily include staff advance and receivables due from staff for the exercise of restricted shares and share options.

**(e) Impairment and risk exposure**

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences incorporating forward-looking information. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

**12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

The Group classified the following financial assets at fair value through profit or loss (FVPL):

- Debt investments that do not qualify for measurement at either amortised cost or FVOCI;
- Equity investments that are held for trading; and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current assets</b>		
Debt investments (a)		
– Unlisted	<b>3,690,089</b>	3,331,613
– Investments in bonds	<b>1,523,159</b>	–
– Fund	<b>585,512</b>	334,065
Equity investments (b)		
– Listed	<b>631,337</b>	431,917
– Unlisted	<b>246,436</b>	213,375
	<b>6,676,533</b>	4,310,970
<b>Current assets</b>		
Structured deposits (c)	<b>632,124</b>	272,549
	<b>7,308,657</b>	4,583,519

**(a) Debt investments**

The movement of the debt investments is analysed as follows:

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	<b>3,665,678</b>	2,744,605
Additions	<b>2,802,090</b>	1,289,866
Disposals	<b>(108,892)</b>	(32,256)
Transfer to equity investments (i)	–	(193,341)
Fair value changes	<b>(750,966)</b>	(96,463)
Currency translation differences	<b>190,850</b>	(46,733)
At end of the year	<b>5,798,760</b>	3,665,678

- (i) One of the companies invested by the Group was listed on the New York Stock Exchange in 2021, the preferred shares held by the Group was converted into ordinary shares, accordingly the investment was transferred from debt investment to equity investment.

The Group made investments in various industry companies in the form of convertible redeemable preferred shares, ordinary shares with preferential rights and convertible loans. The Group has the right to require and demand the investees to redeem all of the investments held by the Group at guaranteed predetermined amount upon redemption events which are out of control of the investees. Hence these investments are accounted for as debt instruments and are measured as financial assets at fair value through profit or loss. In addition, the Group also made investments in certain investment funds as a limited partner, these investments were included in debt investments, depending on the investment contract terms.

**(b) Equity investments**

The movement of the equity investments is analysed as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At beginning of the year	645,292	991,891
Additions	662,977	29,152
Transfer from debt investments	–	193,341
Disposals	(277,146)	(57,827)
Fair value changes	(155,277)	(494,709)
Currency translation differences	1,927	(16,556)
	<u>877,773</u>	<u>645,292</u>
At end of the year		

The fair values of the listed securities are determined based on the closing price quoted in active markets. The fair values of the unlisted securities are measured using a valuation technique with unobservable inputs.

**(c) Structured deposits**

Structured deposits represented the wealth management products issued by reputable banks in mainland China or in Hong Kong. The wealth management products were non-principal protected with maturity of less than 1 year.

The movement of the wealth management products is analysed as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At beginning of the year	272,549	–
Additions	5,763,000	15,429,000
Disposals	(5,424,590)	(15,235,034)
Fair value changes	21,165	78,583
	<u>632,124</u>	<u>272,549</u>
At end of the year		

**(d) Amounts recognised in the consolidated income statement**

During the year ended December 31, 2022, the following (losses)/gains were recognised in the consolidated income statement:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value (losses)/gains on investments in:		
Debt investments	(750,966)	(96,463)
Equity investments	(155,277)	(494,709)
Derivative	–	(2,072)
Structured deposits	21,165	78,583
	<u>(885,078)</u>	<u>(514,661)</u>

### 13 TRADE AND OTHER PAYABLES AND LONG-TERM PAYABLES

#### (a) Trade and other payables

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Notes payables	1,691	–
Trade payables		
– Third parties	842,792	468,020
– Related parties	4,378	2,381
Other payables		
– Third parties	574,256	424,263
– Related parties	2,148	1,125
Payables on purchase of property, plant and equipment and intangible assets	387,521	565,595
Payables for listing expenses	–	122,939
Accrued taxes other than income tax	223,530	226,011
Staff salaries and welfare payables	400,977	449,089
VAT payables related to contract liabilities	15,410	5,284
Accrued warranty expenses	19,878	25,551
	<u>2,472,581</u>	<u>2,290,258</u>

- (i) The carrying amounts of trade and other payables are considered to be approximated to their fair values, due to their short-term nature.
- (ii) Aging analysis of the trade payables and notes payables based on purchase date at the end of December 31, 2022 are as follows:

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 6 months	718,327	392,277
6 months to 1 year	76,660	25,249
1 to 2 years	19,477	32,526
More than 2 years	34,397	20,349
	<u>848,861</u>	<u>470,401</u>

#### (b) Long-term payables

Long-term payables represented the obligations to pay for goods and licensed intellectual properties with payments due more than 1 year. The fair values of long-term payables as at December 31, 2022 were RMB11,126,000 (2021: RMB44,958,000).

## 14 BORROWINGS

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-Current</b>		
Bank borrowing – secured	2,909,453	339,505
Less: current portion of non-current borrowings	(2,300)	–
	<u>2,907,153</u>	<u>339,505</u>
<b>Current</b>		
Short-term borrowing – guaranteed	316,248	–
Current portion of non-current borrowings	2,300	–
Interest payable	2,913	383
	<u>321,461</u>	<u>383</u>
<b>Total</b>	<u><b>3,228,614</b></u>	<u><b>339,888</b></u>

### Secured bank borrowing

As at December 31, 2022, the Group had bank borrowings with carrying amount of RMB229,700,000 which were secured by the Group's term deposits of USD38,600,000 (equivalent to RMB271,392,000).

As at December 31, 2022, the Group had a bank borrowing with carrying amount of RMB1,015,613,000 which was pledged by equity interest of Shanghai Yuqin Information Technology Co., Ltd. (“**Shanghai Yuqin**”) and joint liability guarantee from Shanghai Yuqin and Shanghai SenseTime. In addition, certain buildings (Note 10) with a carrying amount of RMB1,109,380,000 and land use right with a carrying amount of RMB64,517,000 (December 31, 2021: buildings with a carrying amount of RMB854,796,000 and land use right with a carrying amount of RMB65,870,000) respectively were also pledged as collaterals for this bank borrowing.

As at December 31, 2022, the Group had a bank borrowing with carrying amount of RMB1,664,140,000 which was pledged by certain buildings (Note 10) with a carrying amount of RMB3,266,946,000 as a collateral for the Group's borrowings. This pledge registration took effect in February 2023.

### Guaranteed bank borrowings

As at December 31, 2022, the Group had bank borrowings with carrying amount of RMB316,248,000 which were guaranteed by SenseTime Group Limited.

The Group's borrowings are denominated in:

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
– RMB	<u><b>3,228,614</b></u>	<u><b>339,888</b></u>

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier were as follows:

	<b>As at December 31,</b>	
	<b>2022</b>	2021
	<i>RMB'000</i>	<i>RMB'000</i>
6 months or less	<b>199,954</b>	–
Between 6 and 12 months	<b>118,594</b>	–
Between 1 and 2 years	<b>6,300</b>	–
Between 2 and 5 years	<b>610,565</b>	33,951
Over 5 years	<b>2,290,288</b>	305,554
	<b><u>3,225,701</u></b>	<u>339,505</u>

The aggregate principal amounts of bank borrowings and applicable interest rates are as follows:

	<b>As at December 31, 2022</b>		As at December 31, 2021	
	<b>Amount</b>	<b>Interest rate</b>	Amount	Interest rate
	<i>RMB'000</i>	<i>Per annum</i>	<i>RMB'000</i>	<i>Per annum</i>
RMB bank borrowings	<b><u>3,225,701</u></b>	<b><u>2.50%–3.95%</u></b>	<u>339,505</u>	<u>3.95%</u>

The Group had complied with all of the financial covenants of its borrowing facilities for the year ended December 31, 2022 (2021: complied with all of the financial covenants of its borrowing facilities).

As at December 31, 2022, the weighted average effective interest rate for borrowings was 3.36% (2021: 3.95%).

The fair values of current borrowings equal to their carrying amount as the discounting impact is not significant.

The fair values of non-current borrowings as at December 31, 2022 were disclosed as follows:

	<b>As at December 31,</b>	
	<b>2022</b>	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current borrowings	<b><u>2,801,157</u></b>	<u>348,310</u>

## **15 EVENTS AFTER THE BALANCE SHEET DATE**

From January 1, 2023 to the date of this report, the Group signed investment contracts with certain technology companies to acquire minority equity interests in these companies. The total investment amount will be up to RMB40,000,000.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period and up to the date of this announcement, the Company repurchased a total of 38,475,000 Class B Shares on the Stock Exchange at an aggregate consideration of HKD75,956,740. All repurchased Class B Shares during the Reporting Period were subsequently cancelled. Details of such repurchase are set out as follows:

Month of repurchase in 2022	Number of Class B Shares repurchased	Price per Class B Share paid		Aggregate Consideration (HKD)
		Highest (HKD)	Lowest (HKD)	
July	6,700,000	2.1	2.1	14,070,000
September	31,775,000	2	1.89	61,886,740
Total	<u>38,475,000</u>			<u>75,956,740</u>

Upon cancellation of such Class B Shares, Infinity Vision Enterprise Inc. (a holder of Class A Shares which is wholly-owned by Dr. Wang Xiaogang) simultaneously converted an aggregate of 8,644,928 Class A Shares into 8,644,928 Class B Shares on a one-to-one ratio pursuant to 8A.21 of the Listing Rules, such that the proportion of Class A Shares of the Company shall not be increased as a result of the cancellation of the repurchased Class B Shares, pursuant to the requirements under 8A.13 and 8A.15 of the Listing Rules. Therefore, during the Reporting Period and up to the date of this announcement, the number of Class B Shares in issue was reduced by 29,830,072 taking into account (i) the cancellation of 38,475,000 repurchased Class B Shares and (ii) the conversion of 8,644,928 Class A Shares into 8,644,928 Class B Shares as described above.

Save as disclosed above, during the Reporting Period and up to the date of this announcement, neither the Company nor its subsidiaries or consolidated affiliated entities had purchased, sold or redeemed any of the securities of the Company listed on the Stock Exchange.

## EVENTS AFTER THE REPORTING PERIOD

Save as otherwise disclosed in this announcement, there was no other significant events that may affect the Group since the end of the Reporting Period.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its Shareholders. The principles of the Company's corporate governance are to promote effective internal control measures, to enhance transparency of the work of the Board, and to strengthen accountability to all the Shareholders.

During the Reporting Period, the Company has complied with the applicable code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules, save for code provision C.2.1 as discussed below.

Pursuant to code provision C.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should be performed by different individuals. The Company does not have a separate chairman and chief executive officer, and Dr. Xu Li currently performs these two roles. The Board believes that vesting the roles of both executive chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of executive chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

## **FINAL DIVIDEND**

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2022.

## **ANNUAL GENERAL MEETING**

The AGM will be held on June 23, 2023. A notice convening the AGM will be published and despatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

## **CLOSURE OF THE REGISTER OF MEMBERS**

For the purposes of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from June 19, 2023 to June 23, 2023 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates shall be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on June 16, 2023.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Board has adopted the Model Code as the code of conduct regulating Directors' dealings in securities of the Company. In response to specific enquiries made by the Board, all Directors confirmed that they have complied with the provisions of the Model Code during the Reporting Period and 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 income statement, consolidated statement of comprehensive loss and the related notes thereto for the year ended December 31, 2022 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 assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on announcement.

## **AUDIT COMMITTEE**

The Audit Committee (comprising the non-executive director, Ms. Fan Yuanyuan, and two independent non-executive directors, Mr. Lyn Frank Yee Chon and Mr. Li Wei) has reviewed the consolidated financial statements of the Group for the Reporting Period. The Audit Committee has also discussed matters in relation to the accounting policies and practices adopted by the Company and internal control with senior management members and the Auditor.

## **PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement has been published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.sensetime.com](http://www.sensetime.com). The annual report of the Company for the year ended December 31, 2022 will be published on the aforesaid websites of the Stock Exchange and the Company and will be despatched to the Company's shareholders in due course.

## DEFINITIONS

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

“AGM”	the annual general meeting for the year ended December 31, 2022 to be held on June 23, 2023 or any adjournment thereof
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company
“Board”	the board of Directors of the Company
“Class A Share(s)”	the class A ordinary shares of the Company with a par value of US\$0.000000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to 10 votes per share on any resolution tabled at the Company’s general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
“Class B Share(s)”	the class B ordinary shares of the Company with a par value of US\$0.000000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company’s general meetings
“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)
“Director(s)”	director(s) of the Company
“Group”, “SenseTime” or “we”	the Company and its subsidiaries and consolidated affiliated entities
“HKD”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards
“JPY”	Japanese Yen, the lawful currency of Japan
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules
“PRC” or “China”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated December 7, 2021, as supplemented by the supplemental prospectus of the Company dated December 20, 2021
“Reporting Period”	the year ended December 31, 2022
“Reserved Matters”	those matters or resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the memorandum and articles of association of the Company, being (i) any amendment to the memorandum and articles of association of the Company, (ii) the variation of the rights attached to any class of Shares, (iii) the appointment, election or removal of any independent non-executive Director, (iv) the appointment or removal of the Company’s auditors, and (v) the voluntary liquidation or winding-up of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SGD”	Singapore Dollars, the lawful currency of Singapore
“Share(s)”	the Class A Shares and Class B Shares
“Shareholder(s)”	the holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States Dollars, the lawful currency of the United States

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, March 28, 2023

*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.*

*This announcement contains certain forward-looking statements. These forward-looking statements are based on information currently available to the Group or the current belief, expectations and assumptions of the Board. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward – looking statements. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and shareholders and investors of the Company should not place undue reliance on such statements.*