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SenseTime Group Inc.

商汤集团股份有限公司

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

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

The Board is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2023. These interim results have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”, and reviewed by the Auditor, and by the Audit Committee.

KEY HIGHLIGHTS

Financial Summary

	Six months ended June 30				Period-over-period change
	2023	2022	As a percentage of revenue	As a percentage of revenue	
	Amount	Amount	of revenue	of revenue	
	<i>(Unaudited)</i>				
	<i>(RMB in thousands, except for percentages)</i>				
Revenue	1,433,122	1,415,343	100.0	100.0	1.3%
Gross Profit	648,673	934,043	45.3	66.0	-30.6%
Loss for the period	(3,142,624)	(3,207,988)	(219.3)	(226.7)	-2.0%
Non-IFRS Measures:					
Adjusted EBITDA	(2,025,854)	(2,322,546)	(141.4)	(164.1)	-12.8%
Adjusted net loss	(2,393,395)	(2,564,180)	(167.0)	(181.2)	-6.7%

Operating Metrics

	Six months ended June 30		Period-over-
	2023	2022	period change
Number of customers in Smart Business	481	512	-6.1%
Number of customers in Smart Life	270	183	47.5%
Number of customers in Smart Auto	34	20	70.0%
	As at	As at	
	June 30,	December 31,	
	2023	2022	Change
Number of cities served in Smart City	163	162	0.6%

BUSINESS REVIEW AND PERFORMANCE

OVERALL PERFORMANCE

In the first half of 2023, we achieved robust performance in revenue. Leveraging our own SenseCore AI infrastructure, we accelerated R&D of large language models (LLMs) and text-to-image model which are part of the “SenseNova” Foundation Model Sets, significantly broadening our Generative AI business. A key milestone is InternLM: in collaboration with a number of top domestic research institutions, we released our pretrained LLM – InternLM in June 2023, and it became the first domestic base model to surpass the performance of GPT-3.5-turbo. We also launched the Generative AI product suite on the basis of the “SenseNova” Foundation Model Sets, including “SenseChat”, “SenseMirage”, “SenseAvatar”, and more. These innovations are leading the transformation of our Group’s business, with our Generative AI related business recording triple-digit year-over-year growth.

We continued to upgrade our AI supercomputing infrastructure – SenseCore, increasing the number of GPUs from 27,000 at the end of March 2023 to approximately 30,000 at present. The computational capacity also scaled from 5 ExaFLOPS to 6 ExaFLOPS. We continue to invest and innovate in SenseCore, providing reliable, advanced R&D environments and ample computing power for the ever-growing demand for large model training and inference. Since 2023, more than 1,000 large models, ranging from billions to hundreds of billions of parameters, have been trained on SenseCore, achieving industry-leading iteration speed and supporting dozens of Generative AI applications.

From 2023 onwards, we collaborated with multiple top domestic research institutions, investing around 10,000 GPUs in the R&D of our LLM, enabling a significant leap in model performance:

- In April 2023, “SenseChat 1.0” was released, one of China’s earliest chatbot products based on a LLM with hundreds of billions of parameters;
- In June 2023, InternLM, the first base model with comprehensive capabilities to surpass GPT-3.5-turbo, was released with 104 billion parameters, and was trained on a multilingual corpus of 1.6 trillion tokens, supporting over 20 languages, based on which “SenseChat 2.0” was launched in early July;

- In August 2023, we finished training InternLM-123B, an upgraded version with 123 billion parameters showing significant improvement in language, knowledge, understanding, reasoning, and academic capabilities. InternLM-123B ranks second in the world for the text on a total of 300,000 questions in 51 well-known evaluation benchmarks (including MMLU, AGIEval, ARC, C-Eval, RACE, GSM8K, etc.), outperforming GPT-3.5-turbo and Meta’s newly released LLaMA-2-70B and other models. Not only can InternLM-123B generate more accurate and reliable content, demonstrate the ability to perform multi-step reasoning and calculations in complex scenarios, it also demonstrates capabilities of self-reflection and self-correction. Additionally, InternLM-123B has made significant enhancements in code interpreter and function-calling capabilities, supporting three common tools, including Python interpreter, API calls, and Search. This enables it to tackle complex tasks and build AI agents flexibly for various applications, based on which SenseChat will be upgraded to version 3.0 within this September.

InternLM-123B’s Performance on Major Evaluation Benchmarks and Comparison with Other Leading International Models

	Evaluation Benchmarks	InternLM-104B	InternLM-123B	ChatGPT	GPT-4	LLaMA-2-70B
Comprehensive Examination	MMLU	64.3	<u>72.9</u>	69.1	83.0	69.8
	C-Eval	54.4	<u>67.5</u>	52.5	69.9	50.1
	AGIEval	37.1	57.8	39.9	<u>55.1</u>	40.0
	ARC-c	76.6	<u>90.2</u>	83.7	93.6	78.3
	ARC-e	85.5	<u>91.9</u>	88.9	95.4	85.9
Knowledge Quiz	CommonSenseQA	70.5	88.5	80.2	<u>88.3</u>	78.3
	NaturalQuestions	29.6	<u>36.8</u>	27.0	40.4	34.2
Reading Comprehension	C3	62.8	95.5	85.6	<u>95.1</u>	79.0
	CMRC	40.0	62.9	40.1	42.6	<u>43.7</u>
	RACE (Middle)	83.4	94.9	85.6	<u>93.7</u>	81.6
	RACE (High)	79.2	91.7	80.3	<u>91.0</u>	79.9
	LAMBADA	77.7	87.0	57.5	65.5	<u>78.9</u>
Inference	WinoGrande	68.7	86.4	58.8	<u>78.9</u>	69.8
	StoryCloze	78.6	99.8	97.2	<u>99.5</u>	89.7
	HellaSwag	81.3	91.8	79.5	<u>91.4</u>	82.3
	StrategyQA	73.0	81.7	66.1	<u>79.7</u>	74.7
	PIQA	82.2	<u>86.3</u>	81.7	89.2	82.5
	SIQA	62.6	82.4	<u>72.4</u>	70.1	64.8
	BigBench-Hard	59.5	<u>71.1</u>	70.1	86.7	64.9
Mathematics	GSM8K	52.7	76.4	<u>78.2</u>	91.4	63.3

Note: Bold represents the best performing model in the evaluation; underline represents the second best performing model in the evaluation.

- We recognized the high demands for training data in terms of volume and quality, as well as the influence of training data on the model’s values and safety. Our reservoir of raw corpus data leads the industry. We deployed several hundreds of servers and thousands of GPUs to support our computational needs, and employed a combination of algorithms and human oversight to meticulously categorize and thoroughly clean the raw corpus data. This ensures that the quality, safety and value of our data meet requirements. We have achieved a monthly output of around 2 trillion high-quality tokens and are expecting our high-quality data storage to surpass 10 trillion tokens by the end of the year, supporting the training of even more powerful base models.
- We cooperated with various research institutions to promote AI open-source platforms. Parts of InternLM-7B’s (7 billion parameters) training data, training code, and weights have been opened to academia and industry, supporting commercial use. It ranks the highest in multiple model benchmarks for lightweight base models¹, and outperforms larger models like LLaMA2-13B (13 billion parameters) in multiple rankings. We will soon open-source the more powerful InternLM-20B model (20 billion parameters), suitable for the construction of various applications due to its excellent function-calling capability and moderate size. We have a long history of open sourcing our infrastructure and AI work. From our earliest open-source computer vision framework OpenMMLab (87,000 GitHub stars) in 2018, we have expanded to more AI tools, including decision intelligence, LLMs, data platforms, high-performance training and inference frameworks, AI agent frameworks, and more. Our AI infrastructure SenseCore also actively serves many academic and commercial institutions. Open sourcing allows our work to benefit the entire industry, and foster broader collaborative innovation. We look forward to seeing AI community’s contribution to InternLM and more co-building of AI applications.

Another significant research objective for us is to train a text-to-image model which ranks top three globally. We have allocated approximately 2,000 GPUs in the development of the text-to-image model, achieving rapid iterations:

- In January 2023, we released SenseMirage 1.0, powered by self-developed 800-million-parameter diffusion model, and began internal testing. Users could input prompts to generate anime and manga images.
- In April 2023, SenseMirage was upgraded to version 2.0, our first for-consumer application based on a 1.4-billion parameter text-to-image base model with general capabilities. Whether realistic photos, artistic paintings, or sci-fi scenes, the generated images are made to order, bringing realistic lighting effects and rich detailed content.

¹ InternLM-7b-chat ranks first in international and domestic mainstream evaluations such as MMLU, AGIEval, HumanEval, FlagEval, SuperCLUE and other benchmarks for lightweight models evaluation

- In July 2023, SenseMirage was upgraded to version 3.0, with base model parameters increasing to 7 billion. Supported by a new, large, self-developed generative model architecture, it provided stronger image generation effects and details, achieving professional photography-level image depiction. SenseMirage 3.0 also introduced a prompt auto-completion feature, allowing users to create high-quality artwork with just a few simple prompts, significantly simplifying the prompt engineering process. The core algorithm of SenseMirage 3.0 surpasses both Imagen and DALL·E 2 on the COCO benchmark. Its image generation capabilities lead domestically and rank among the top three globally.
- SenseMirage 4.0 is expected to be launched in Q3 2023. Along with the upgraded base model, it will also introduce an entirely new aesthetic system to further enhance the product's competitiveness.

Based on our state-of-the-art “SenseNova” Foundation Model Sets and SenseCore, we launched the Generative AI product suite in April 2023, comprising six categories of Generative AI products:

- “**SenseChat – Chatbot Assistant**” offers smooth language understanding and generation capabilities to solve complex questions, provide customized suggestions and assist in first class writing. “**SenseChat – DaYi**” is based on vast medical knowledge and clinical data, empowering hospital guidance, clinical consultation, health check, and assisted decision. “**SenseChat – AI Code Assistant**” is trained on billions of lines of code data, supporting code completion, comment generation, code testing, and debugging, enhancing programming efficiency and simplifying the development process.
- “**SenseMirage**” is an image generation platform based on our proprietary text-to-image model, achieving industry-leading standards in image quality, generation speed, and user-customized model training.
- “**SenseAvatar**” offers best-in-class digital human generation service, and has been widely used in video production, live streaming, customer service, and more.
- “**SenseSpace**” is our real-world 3D reconstruction large model based on NeRF, capable of 4K high-precision modeling and editing over 100 square kilometers of urban landscapes, and is used in film production, architecture, marketing, and digital twin management and operations.
- “**SenseThings**” is a 3D generation platform that can reproduce complex geometric structures, textures, materials, and gloss of 3D objects, achieving real-time, high-precision rendering.
- “**SenseAnnotation**” is a data annotation platform based on our large models, with over 10 general-purpose and industry-specific models, supporting intelligent annotation of various data categories. It offers advantages such as better annotation results, higher efficiency, and lower costs compared to traditional human annotation.

In the first half of 2023, our Generative AI related revenue recorded a year-over-year growth of 670.4%, and its contribution to the Group’s business rapidly increased from 10.4% in 2022 to 20.3%. According to the “AI Large Model Market Research Report (2023)” by Frost & Sullivan, we rank first in China for overall competitiveness, including product, strategic vision, and ecosystem development.

For the six months ended June 30, 2023, the total revenue of the Group was RMB1,433.1 million; gross profit was RMB648.7 million, with a gross profit margin of 45.3%. In spite of increased investments in large model R&D, we continue to work towards our operating objective of reducing net loss, and we have exercised stringent cost-saving discipline since last year, leading to improved efficiency for AI commercialization and a 6.5% year-on-year decrease in operating expenses. For the six months ended June 30, 2023, the Group’s net loss was RMB3,142.6 million, and the adjusted net loss was RMB2,393.4 million, declining by 2.0% and 6.7% year-over-year, respectively. As of June 30, 2023, the total balance of bank deposits, cash on hand, structured deposits, and fair value of investments in bonds and other fixed-income products held by the Group was RMB14,818.7 million.

PERFORMANCE OF EACH BUSINESS SEGMENT

In the first half of 2023, we have actively promoted our generative AI offerings across our four major business segments: Smart Business, Smart Life, Smart Auto, and Smart City. This move has further optimized and transformed the company’s business structure.

Smart Business

With the growing capabilities delivered by large models, AI market for enterprise is opened up for more application scenarios. In the first half of 2023, Smart Business segment’s revenue reached RMB853.6 million, a year-over-year increase of 50.2%. The number of customers during the period was 481, and the average revenue per customer increased by 59.9%.

We have been deeply engaged in customizing large models for 10 vertical industries, including energy, finance, real estate, information systems, human resources, media, manufacturing, consulting, etc. For example,

- We have collaborated with a leading domestic power grid company, providing large model capabilities and services across three levels: (1) Apply “SenseChat” in customer service to reduce costs and increase efficiency; (2) Identify rare failures and complex defects in an open-world context based on multimodal large models; (3) Jointly research on decision intelligence system for smart scheduling of power grid systems.
- We empowered leading financial institutions in China with “SenseChat” to enhance their key businesses, including intelligent customer service, sales training, and collaborated on the research of financial large models.
- We provided one of the top three insurance companies in China with AI-based remote sensing large models for cross-validating crop underwriting data, enhancing the risk assessment and claims service system of insurance companies. Compared to traditional manual identification methods, this solution has increased efficiency by 60 times, leading technological innovation in agricultural insurance.

With the deep integration of large model technology across various industries, the continuous emergence of new features and services will provide enterprises with additional business opportunities and profit potential.

Smart Life

In the first half of 2023, the Smart Life segment's revenue grew by 6.7% to RMB311.8 million, and the revenue accounted for 21.8% of the Group's total revenue; the number of Smart Life segment customers reached 270. The Smart Life business actively embraced the transformative power of generative AI. By offering new products and features empowered by large models to hundreds of clients in the smart device and internet industries, we aim to reach hundreds of millions of devices, small and medium-sized enterprises, and end users. For example,

- SenseChat and SenseMirage have both gained popularity among numerous clients in the internet industry. We collaborated with clients across over 20 different domains, including e-commerce, traditional media, and social media platforms, to create industry-specific large models that could better serve their end customers, bringing the power of large models to broader consumers more effectively.
- For SenseAvatar, our digital humans performed excellently in multiple technical evaluations with highly lifelike expressions, smooth synthetic speech, and lively generated actions. We have provided SenseAvatar to leading customers in e-commerce, live streaming and banking, including CCTV, China's National Radio and Television Administration, Industrial and Commercial Bank of China, etc.
- In terms of SenseThings, its high-precision 3D object modeling capability has been well-received by e-commerce customers. We collaborated with one of Asia's largest jewelry retailers to digitize their products in 3D, to be applied to their online platform.

AI Sensors and ISP Chips Reached Mass Production, LLM Being Integrated with Mobile Devices

Thanks to our three-pronged strategy combining AI SDK, AI sensors and AI ISP chips, our Smart Device business has shown high resilience in the global downturn of the mobile phone industry this year. Our computer vision algorithms have been continuously mass-produced in hundreds of millions of smartphones through SDK, AI sensors, and AI ISPs, consistently penetrating the market and becoming standard features in new models. At the same time, breakthroughs in LLM have led to opportunities for "AI Assistants on Mobile Devices" and "AI Operating Systems Based on Natural Language Interaction," becoming new hotspots in the mobile device industry. Utilizing a lightweight model based on InternLM, along with our proprietary inference acceleration algorithms, we have established R&D collaborations with two leading mobile chip manufacturers. This has allowed us to successfully achieve real-time computational capabilities of LLMs on mobile devices. We are actively collaborating with multiple smartphone manufacturers to develop new features that integrate LLMs with mobile operating systems.

Smart Healthcare Empowered by Large Models

Relying on rich medical knowledge and clinical data, we have trained the LLM for healthcare – “DaYi.” “DaYi” is capable of strong medical language understanding and reasoning, multi-round conversations, and has broad application prospects. Currently, “DaYi” has empowered multiple scenarios like hospital guidance, clinical consultation, health check, assisted decision, etc. In the future, it will further support multimodal analysis incorporating medical images and structured data, so as to continuously empower diagnosis and treatment, and to improve inpatient experience with enhanced understanding and reasoning abilities.

Comprehensive Upgrade of SenseRobot

In June 2023, we released a new generation of consumer-grade AI product for home use – SenseRobot Go. In less than a month, nearly a thousand units have been sold, ranking first in the robot category on both Tmall and JD.com. In August 2023, SenseRobot Go played against world champion Chen Yaoye in a live broadcast and won. Compared to the previous generation, SenseRobot Go has further reduced the cost of millimeter-level high-precision mechanical arms and enhanced the general AI ability in Go, a complex game.

Smart Auto

In the first half of 2023, SenseAuto’s shipment-based pre-installed productions business achieved a year-on-year growth of 573%, with the number of units delivered reaching 390,000, and the production also led to an increase in gross profit per vehicle of 29%. We received confirmation letter as designated supplier for more than 5 million additional vehicles, and for more than 160 models accumulatively. In the first half of 2023, as some of our customers began to shift their mode of collaboration with us from pure R&D service to collaboration in respect of pre-installed products, revenue from R&D declined, partially offset by growth in revenue from shipment-based pre-installed production. In the first half of 2023, revenue from Smart Auto Segment was RMB83.9 million, a year-on-year decrease of 30.5%.

Leading the World in R&D and Application of Autonomous Driving Technology

As one of the first service providers in China to activate L2++ autonomous driving in shipment-based pre-installed production, SenseAuto’s products have been delivered to an increasing number of car models. We continued to make breakthroughs in autonomous driving technologies. In 2022, our BEV perception algorithm won the Waymo Challenge, and we were the first to deliver the BEV perception technology in pre-installed production. This year, our UniAD algorithm, a large model of autonomous driving, won the Best Paper Award at CVPR, the first best paper in the history of CVPR focusing on autonomous driving. UniAD’s Transformer-based network framework integrates the detection, tracking, mapping, prediction, and planning of autonomous driving into a single framework, and is aimed at optimizing the ultimate “planning” objective, resulting in a 20% increase in multi-object tracking accuracy, a 30% increase in lane line prediction accuracy, a 38% decrease in motion forecasting error, and a 28% decrease in planning error. We expect that the new algorithm will be ready for mass production in Q4 this year, which will further enhance the competitiveness of our autonomous driving products.

Rapid Growth in Pre-installed Production of SenseAuto Cabin

In the first half of 2023, we achieved rapid growth in the shipment-based pre-installed production of SenseAuto Cabin. Specifically, our pre-installed volume almost quadrupled from the same period last year. According to the China Passenger Car Cabin IMS Software Supplier List for Q1 2023 published by GGII, SenseAuto ranks first. Meanwhile, our LLM capabilities have garnered extensive attention from automotive manufacturers. Building intelligent in-cabin assistants based on LLMs has become a hot topic within the industry. We have actively promoted smart cabin applications based on LLMs and have launched several interactive products in Chinese for car cabins based on SenseChat, including health consultations, travel planning, and children's reading companions.

Smart City

In the first half of 2023, we continued to advance the transformation of Smart City business, focusing on premium clients and consistently optimizing revenue quality and improving cash flow. The Smart City segment achieved revenue of RMB183.8 million, a year-on-year decrease of 57.7%; the Smart City segment accounted for 12.8% of the Group's total revenue, a further reduction from 2022's 28.8% revenue contribution. Our Smart City segment revenue share from China's tier-one and tier-two cities increased from 34% in the same period last year to 64% in the first half of this year.

International Business

In the first half of 2023, we continue to develop overseas market. Our revenue from overseas market for the first half of 2023 was RMB229.2 million and the percentage of revenue contribution is 16.0%, similar to 2022's 16.8%. Our proprietary LLM, together with our capabilities to adapt to different languages and cultures around the world, are favored by many overseas customers, making our global partners true AGI beneficiaries. For example, through a joint venture with Saudi Arabia's sovereign wealth fund PIF, we used SenseSpace's 3D digital twin technology to empower the construction of the King Abdullah Financial District (KAJD) smart park in Saudi Arabia, and brought immersive smart cultural and tourism experiences to five theme parks in the UAE using SenseMirage.

ENVIRONMENT, SOCIETY, AND GOVERNANCE

Since 2023, with the explosive developments of generative AI and large models, the general public has paid more attention to the ethical risks brought by the powerful capabilities of AI, such as fraud committed through DeepFake and speech synthesis. SenseTime has always been committed to building a trustworthy AI system and actively participated in the formulation of domestic AI standards and regulations, so as to enhance AI safety and governance and promote sustainable AI development. We have launched SenseTrust – our AI governance platform which encompasses a comprehensive suite of trustworthy AI governance tools for AI training data, model and applications. Our practices include:

- Training anti-spoofing large models, outperforming industry peers by over 20% in detecting complex forged methods, serving many financial institutions;
- Incorporating digital watermarking technology in Generative AI, with applications in copyright protection, anti-counterfeiting, traceability, etc.;
- Building the “SenseTime Open Platform on AI Security and Governance” to provide a public platform for AI security and sustainable development;
- Participating in the preparation of the “AI Ethical Governance Standardization Guide (2023 Edition)”, contributing to the healthy development of AI research and applications;
- Becoming a member of Singapore’s “AI Verify Foundation,” promoting trustworthy AI in Singapore, and setting a positive international benchmark.

At the same time, SenseTime continues to strive for carbon neutrality goals of “Carbon Peak by 2025, Carbon Neutrality in Operations by 2030, Net Zero Emissions by 2050.” Through stringent operations, the AIDC in Lingang achieved an actual average annual Power Usage Effectiveness (PUE) of 1.28, below the original target. Further efforts have been made in office energy-saving and emission reduction, including upgrading automatic control of the air conditioning system in major workplaces which could lead to reduction in air conditioning power usage by 8%, and completing a smart lighting pilot project, aiming to achieve an annual saving of over 30% in lighting. We will continue to actively pursue ESG goals to achieve a healthy and sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS

Six months ended June 30, 2023 compared to six months ended June 30, 2022

The following table sets forth the comparative figures for the six months ended June 30, 2023 and 2022:

	Six months ended June 30	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	1,433,122	1,415,343
Cost of sales	(784,449)	(481,300)
Gross profit	648,673	934,043
Selling expenses	(417,957)	(402,148)
Administrative expenses	(796,516)	(768,629)
Research and development expenses	(1,783,186)	(2,035,330)
Net impairment losses on financial assets and contract assets	(396,493)	(542,183)
Other income	152,240	193,347
Other losses – net	(754,066)	(798,784)
Operating loss	(3,347,305)	(3,419,684)
Finance income	168,904	122,489
Finance cost	(68,367)	(19,128)
Finance income – net	100,537	103,361
Share of losses of investments accounted for using the equity method	(10,029)	(835)
Fair value losses of preferred share and other financial liabilities	(10,043)	(5,134)
Loss before income tax	(3,266,840)	(3,322,292)
Income tax credit	124,216	114,304
Loss for the period	(3,142,624)	(3,207,988)
Loss is attributable to:		
Equity holders of the Company	(3,122,744)	(3,157,653)
Non-controlling interests	(19,880)	(50,335)
	(3,142,624)	(3,207,988)
Non-IFRS measures:		
Adjusted EBITDA	(2,025,854)	(2,322,546)
Adjusted net losses	(2,393,395)	(2,564,180)

Revenue

Our revenue increased by 1.3% to RMB1,433.1 million in the six months ended June 30, 2023, compared to RMB1,415.3 million in the six months ended June 30, 2022, primarily due to the increase in Smart Business and Smart Life revenues, offset by the decrease in Smart City 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 periods indicated:

	Six months ended June 30			
	2023		2022	
	<i>RMB</i>	%	<i>RMB</i>	%
	<i>million</i>		<i>million</i>	
	(Unaudited)		(Unaudited)	
Smart Business	853.6	59.5	568.3	40.2
Smart Life	311.8	21.8	292.1	20.6
Smart City	183.8	12.8	434.1	30.7
Smart Auto	83.9	5.9	120.8	8.5
Total	1,433.1	100.0	1,415.3	100.0

Our Smart Business revenue increased by 50.2% to RMB853.6 million in the six months ended June 30, 2023, compared to RMB568.3 million in the six months ended June 30, 2022, as we continue to capture emerging Generative AI-related business opportunities.

Our Smart Life revenue increased by 6.7% to RMB311.8 million in the six months ended June 30, 2023, compared to RMB292.1 million in the six months ended June 30, 2022, which was primarily due to increasing contribution from our R&D work on AI sensors, as part of our collaboration with a global leading semiconductor company. This revenue stream also began to benefit from early commercialization of our Generative AI-related new products.

Our Smart City revenue decreased by 57.7% to RMB183.8 million in the six months ended June 30, 2023, compared to RMB434.1 million in the six months ended June 30, 2022, primarily due to the shifting of our strategic focus to top tier customers with strong credit profiles.

Our Smart Auto revenue decreased by 30.5% to RMB83.9 million in the six months ended June 30, 2023, compared to RMB120.8 million in the six months ended June 30, 2022. Our revenue from pre-installed products (both smart cabin and ADAS-related products) experienced significant increase as our auto OEM customers ramped up their car shipment. But such increase was more than offset by decreasing revenue from various R&D services to a global auto OEM, as this particular auto OEM shifts focus to potentially collaborate with us more on pre-installed products in the future.

Cost of sales

Our cost of sales increased by 63.0% from RMB481.3 million in the six months ended June 30, 2022 to RMB784.4 million in the six months ended June 30, 2023. 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 periods indicated:

	Six months ended June 30			
	2023		2022	
	<i>RMB</i>	%	<i>RMB</i>	%
	<i>million</i>		<i>million</i>	
	(Unaudited)		(Unaudited)	
Hardware costs and subcontracting service fees	643.1	82.0	417.4	86.7
AIDC operation costs	20.3	2.6	11.6	2.4
Employee benefit expenses	27.3	3.5	30.8	6.4
Depreciation and amortization	79.4	10.1	12.0	2.5
Other expenses	14.3	1.8	9.5	2.0
Total	784.4	100.0	481.3	100.0

The increase in cost of sales was primarily attributable to the increase in hardware costs and subcontracting service fees, and AIDC-related depreciation and amortization.

Gross Profit and Gross Margin

Our gross profit decreased by 30.5% from RMB934.0 million in the six months ended June 30, 2022 to RMB648.7 million in the six months ended June 30, 2023, primarily due to the increase of cost of sales. Our gross margin decreased from 66.0% in the six months ended June 30, 2022 to 45.3% in the six months ended June 30, 2023, mainly due to higher hardware and AIDC-related costs as percentage of revenue, as driven by customer demand in the first half of 2023.

Research and Development Expenses

Our research and development expenses decreased by 12.4% from RMB2,035.3 million in the six months ended June 30, 2022 to RMB1,783.2 million in the six months ended June 30, 2023, primarily due to (i) a decrease in employee benefit expenses, and (ii) a decrease in server operation and cloud based service fees as we shift our usage of data center service from third parties to our own AIDC.

Selling Expenses

Our selling expenses increased by 4.0% from RMB402.1 million in the six months ended June 30, 2022 to RMB418.0 million in the six months ended June 30, 2023, primarily due to an increase in marketing, conference and travel expenses as we further enhance brand awareness through various marketing and promotional activities both domestically and overseas.

Administrative Expenses

Our administrative expenses increased by 3.6% from RMB768.6 million in the six months ended June 30, 2022 to RMB796.5 million in the six months ended June 30, 2023, primarily due to an increase of depreciation and amortization which mainly results from our purchase of new office space by end of 2022, partially offset by a decrease of professional services and other consulting fees.

Net Impairment Losses on Financial Assets and Contract Assets

Our net impairment losses on financial assets and contract assets decreased by 26.9% from RMB542.2 million in the six months ended June 30, 2022 to RMB396.5 million in the six months ended June 30, 2023, primarily due to increasing collection of trade receivables.

Other Income

Our other income decreased by 21.3% from RMB193.3 million in the six months ended June 30, 2022 to RMB152.2 million in the six months ended June 30, 2023 primarily due to a decrease in government grants.

Other Losses – Net

We had net other losses of RMB754.1 million in the six months ended June 30, 2023 compared to net other losses of RMB798.8 million in the six months ended June 30, 2022. The net other losses in the first half of 2023 primarily consist of net foreign exchange loss of RMB246.7 million and fair value losses on financial assets at fair value through profit or loss amounting to RMB505.3 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 3.1% during the first half of 2023. 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 since the beginning of the year.

Finance Income – Net

Net finance income remained relatively stable in the six months ended June 30, 2022 compared to that in the six months ended June 30, 2023, decreasing slightly from RMB103.4 million to RMB100.5 million.

Fair Value Losses of Preferred Share and Other Financial Liabilities

Fair value losses of preferred share and other financial liabilities increased from RMB5.1 million in the six months ended June 30, 2022 to RMB10.0 million in the six months ended June 30, 2023 resulting from changes in the fair value of preferred shares issued by a subsidiary of the Company.

Income tax credit

We had income tax credit of RMB124.2 million in the six months ended June 30, 2023, compared to income tax credit of RMB114.3 million in the six months ended June 30, 2022 primarily due to an increase in deductible tax losses.

Loss for the period

As a result of the foregoing, we had a loss of RMB3,142.6 million in the six months ended June 30, 2023, compared with a loss of RMB3,208.0 million in the six months ended June 30, 2022.

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 periods to EBITDA/adjusted EBITDA for the periods indicated:

	Six months ended June 30	
	2023	2022
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Loss before income tax	(3,266.8)	(3,322.3)
Add:		
Finance income, net	(100.5)	(103.4)
Depreciation and amortization	592.3	459.3
	<u>(2,775.0)</u>	<u>(2,966.4)</u>
EBITDA		
Add:		
Fair value losses of preferred share and other financial liabilities	10.0	5.1
Share-based compensation expenses	233.9	299.4
Fair value losses on financial assets at fair value through profit or loss	505.3	339.3
	<u>(2,025.8)</u>	<u>(2,322.6)</u>
Adjusted EBITDA		

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

	Six months ended June 30	
	2023	2022
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Net losses for the period	(3,142.6)	(3,208.0)
Add:		
Fair value losses of preferred shares and other financial liabilities	10.0	5.1
Share-based compensation expenses	233.9	299.4
Fair value losses on financial assets at fair value through profit or loss	505.3	339.3
	<u>(2,393.4)</u>	<u>(2,564.2)</u>
Adjusted net losses		

Trade, Other Receivables and Prepayments

Our trade, other receivables and prepayments decreased from RMB6,071.7 million as of December 31, 2022 to RMB5,764.9 million as of June 30, 2023, which primarily comprise trade receivables.

Trade Receivables

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

	As at June 30 2023 RMB million (Unaudited)	As at December 31 2022 RMB million
Trade receivables		
– Due from related parties	14.9	47.4
– Due from third parties	7,711.2	7,748.9
Provision for impairment	(2,919.3)	(2,578.5)
Total	4,806.8	5,217.8

Our gross trade receivables remained relatively stable as of June 30, 2023, compared to that as of December 31, 2022.

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

	As at June 30 2023 RMB million (Unaudited)	As at December 31 2022 RMB million
Up to 6 months	815.9	1,995.6
6 months to 1 year	1,369.0	746.1
1 to 2 years	2,893.9	3,244.9
2 to 3 years	2,022.4	1,180.0
More than 3 years	624.9	629.7
	7,726.1	7,796.3

As of June 30, 2023, the aging of our gross trade receivables has worsened, compared to that as of December 31, 2022. 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. Although our overall cash collection amount has begun to improve year over year during the first half of 2023, cash collections for relatively long outstanding receivables remain challenging, as some of our customers, especially those in Smart City, face temporary budget constraints and uncertain macroeconomic environment.

LIQUIDITY AND FINANCIAL RESOURCES

We had historically funded our cash requirements principally from capital contribution from shareholders. We had cash and cash equivalents of RMB7,153.0 million and term deposits of RMB4,688.8 million as of June 30, 2023, compared to the balance of RMB7,962.8 million and RMB6,212.9 million as of December 31, 2022.

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

	Six months ended June 30	
	2023	2022
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(1,804.8)	(1,848.1)
Net cash generated from/(used in) investing activities	384.7	(5,721.4)
Net cash generated from financing activities	413.2	1,177.3
Net decrease in cash and cash equivalents	(1,006.9)	(6,392.2)
Cash and cash equivalents at the beginning of the period	7,962.8	16,529.5
Exchange changes on cash and cash equivalents	197.1	236.3
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>7,153.0</u>	<u>10,373.6</u>

Net Cash Used in Operating Activities

Net cash used in operating activities represents the cash used in our operations plus the income tax paid. Cash used in our operations primarily comprises our loss before income tax adjusted by non-cash items and changes in working capital.

For the six months ended June 30, 2023, net cash used in operating activities was RMB1,804.8 million, which was primarily attributable to our loss before income tax, as adjusted by depreciation and amortization, fair value losses on financial assets at fair value through profit or loss and provision for impairment of financial assets and contract assets, and has been generally stable as compared to that for the six months ended June 30, 2022.

Net Cash Generated from Investing Activities

For the six months ended June 30, 2023, net cash generated from investing activities was RMB384.7 million, which was mainly attributable to net decrease in investments in term deposits, partially offset by purchase of property, plant and equipment, net increase in structured deposits and acquisition of debt and equity investments. Cash used in acquisition of equity investments has decreased compared with the first half of 2022, as we continue to increase investing discipline.

Net Cash Generated from Financing Activities

For the six months ended June 30, 2023, net cash generated from financing activities was RMB413.2 million, which was mainly attributable to proceeds from borrowings, partially offset by repayments of borrowings, principle elements of lease payments and interest paid.

Borrowings

As of December 31, 2022 and June 30, 2023, we had total borrowings of RMB3,228.6 million and RMB3,792.8 million, respectively. Details of bank borrowings of the Group as at June 30, 2023 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 June 30, 2023, the Group had 5,016 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 utilization 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 June 30, 2023, approximately HK\$5,958.2 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 (Approximately HK\$ million)	Net proceeds unused as of December 31, 2022 (Approximately HK\$ million)	Actual use of net proceeds during the Reporting Period (Approximately HK\$ million)	Net proceeds unused as of June 30, 2023 (Approximately HK\$ million)	Expected timeline for fully utilising the net proceeds from the Global Offering
(i) Enhancing our research and development capabilities	60.0	3,810.6	209.3	209.3	-	N.A.
(ii) Expansion of our business	15.0	952.7	694.5	301.7	392.8	By end of 2023
(iii) Pursuing strategic investment and acquisition opportunities	15.0	952.7	-	-	-	N.A.
(iv) Working capital and general corporate purposes	10.0	635.0	-	-	-	N.A.
Total	100.0	6,351.0	903.8	511.0	392.8	

The utilization of the net proceeds has been converted from RMB into HKD at an exchange rate of RMB0.81912 to HKD1.00 (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 June 30, 2023, our gearing ratio was -5.9%, 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 June 30, 2023, we did not have any material contingent liabilities.

Significant Investments held

As of June 30, 2023, 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 six months ended June 30, 2023, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Pledge of Assets

As of June 30, 2023, we pledged certain buildings and land use rights with carrying amount of RMB4,401.6 million and restricted guarantee deposits amounting to RMB325.2 million for borrowings.

Future Plans for Material Investments and Capital Assets

As of June 30, 2023, 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 create synergies with the Group's existing core business and improve the Group's service and products to its customers.

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	4(a)	1,433,122	1,415,343
Cost of sales	5	(784,449)	(481,300)
Gross profit		648,673	934,043
Selling expenses	5	(417,957)	(402,148)
Administrative expenses	5	(796,516)	(768,629)
Research and development expenses	5	(1,783,186)	(2,035,330)
Net impairment losses on financial assets and contract assets		(396,493)	(542,183)
Other income		152,240	193,347
Other losses – net	6	(754,066)	(798,784)
Operating loss		(3,347,305)	(3,419,684)
Finance income		168,904	122,489
Finance costs		(68,367)	(19,128)
Finance income – net		100,537	103,361
Share of losses of investments accounted for using the equity method		(10,029)	(835)
Fair value losses of preferred share and other financial liabilities		(10,043)	(5,134)
Loss before income tax		(3,266,840)	(3,322,292)
Income tax credit	7	124,216	114,304
Loss for the period		(3,142,624)	(3,207,988)
Loss is attributable to:			
Equity holders of the Company		(3,122,744)	(3,157,653)
Non-controlling interests		(19,880)	(50,335)
		(3,142,624)	(3,207,988)
Loss per share for loss attributable to equity holders of the Company			
Basic and diluted loss per share (RMB)	8	(0.10)	(0.10)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	(3,142,624)	(3,207,988)
Other comprehensive income		
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	(1,095,142)	(589,935)
<i>Item that will not be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	1,631,358	1,906,922
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	(132)	(2,617)
	<hr/>	<hr/>
Other comprehensive income for the period, net of taxes	536,084	1,314,370
	<hr/>	<hr/>
Total comprehensive loss for the period	(2,606,540)	(1,893,618)
	<hr/>	<hr/>
Total comprehensive loss for the period is attributable to:		
Equity holders of the Company	(2,593,859)	(1,827,352)
Non-controlling interests	(12,681)	(66,266)
	<hr/>	<hr/>
	(2,606,540)	(1,893,618)
	<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2023

	<i>Notes</i>	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment	10	7,355,409	6,999,010
Right-of-use assets		420,910	315,094
Intangible assets		326,806	332,887
Contract assets		22,898	22,999
Investments accounted for using the equity method		108,668	54,241
Deferred income tax assets		817,596	689,697
Restricted cash		243,316	271,392
Financial assets at fair value through profit or loss	12	6,456,082	6,676,533
Long-term receivables		218,560	357,952
Other non-current assets		300,243	183,009
		<u>16,270,488</u>	<u>15,902,814</u>
Current assets			
Inventories		569,043	617,110
Contract assets		29,283	27,231
Trade, other receivables and prepayments	11	5,764,921	6,071,675
Financial assets at fair value through profit or loss	12	1,033,290	632,124
Restricted cash		92,506	348
Term deposits		4,688,844	6,212,878
Cash and cash equivalents		7,153,015	7,962,813
		<u>19,330,902</u>	<u>21,524,179</u>
Total assets		<u>35,601,390</u>	<u>37,426,993</u>
Equity			
Equity attributable to equity holders of the Company			
Share capital		5	5
Other reserves		71,537,438	71,248,900
Currency translation reserves		4,444,345	3,915,328
Accumulated losses		(49,316,753)	(46,194,009)
		<u>26,665,035</u>	<u>28,970,224</u>
Non-controlling interests		<u>30,955</u>	<u>43,636</u>
Total equity		<u>26,695,990</u>	<u>29,013,860</u>

	<i>Notes</i>	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	14	3,621,854	2,907,153
Lease liabilities		199,164	105,228
Deferred income tax liabilities		8,893	9,593
Contract liabilities		31,455	74,553
Deferred revenue		302,197	307,593
Preferred share and other financial liabilities		1,494,834	1,395,814
Long-term payables		5,215	11,611
Put option liability		289,032	278,584
		<u>5,952,644</u>	<u>5,090,129</u>
Current liabilities			
Borrowings	14	170,993	321,461
Trade and other payables	13	2,341,170	2,472,581
Lease liabilities		167,909	183,002
Contract liabilities		175,735	207,571
Deferred revenue		86,764	120,635
Current income tax liabilities		10,185	17,754
		<u>2,952,756</u>	<u>3,323,004</u>
Total liabilities		<u>8,905,400</u>	<u>8,413,133</u>
Total equity and liabilities		<u>35,601,390</u>	<u>37,426,993</u>
Net current assets		<u>16,378,146</u>	<u>18,201,175</u>
Total assets less current liabilities		<u>32,648,634</u>	<u>34,103,989</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Equity attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Other reserves	Currency translation reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)							
As at 1 January 2023	5	71,248,900	3,915,328	(46,194,009)	28,970,224	43,636	29,013,860
Comprehensive loss							
Loss for the period	-	-	-	(3,122,744)	(3,122,744)	(19,880)	(3,142,624)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	-	(132)	-	-	(132)	-	(132)
Exchange differences on translation of foreign operations	-	-	529,017	-	529,017	7,199	536,216
Total comprehensive loss	-	(132)	529,017	(3,122,744)	(2,593,859)	(12,681)	(2,606,540)
Transactions with equity holders							
Exercise of share options	-	54,736	-	-	54,736	-	54,736
Share-based compensation expenses	-	233,934	-	-	233,934	-	233,934
Total transactions with equity holders	-	288,670	-	-	288,670	-	288,670
As at 30 June 2023	5	71,537,438	4,444,345	(49,316,753)	26,665,035	30,955	26,695,990

	Equity attributable to equity holders of the Company						
	Share capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Currency translation reserves <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>	Non-controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
(Unaudited)							
As at 1 January 2022	<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>
Comprehensive loss							
Loss for the period	-	-	-	(3,157,653)	(3,157,653)	(50,335)	(3,207,988)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	-	(2,617)	-	-	(2,617)	-	(2,617)
Exchange differences on translation of foreign operations	-	-	1,332,918	-	1,332,918	(15,931)	1,316,987
Total comprehensive loss	<u>-</u>	<u>(2,617)</u>	<u>1,332,918</u>	<u>(3,157,653)</u>	<u>(1,827,352)</u>	<u>(66,266)</u>	<u>(1,893,618)</u>
Transactions with equity holders							
Exercise of restricted shares and share options	-	17,736	-	-	17,736	-	17,736
Exercise of over-allotment option	*	692,807	-	-	692,807	-	692,807
Share-based compensation expenses	-	299,355	-	-	299,355	-	299,355
Others	-	-	-	(528)	(528)	-	(528)
Total transactions with equity holders	<u>-</u>	<u>1,009,898</u>	<u>-</u>	<u>(528)</u>	<u>1,009,370</u>	<u>-</u>	<u>1,009,370</u>
As at 30 June 2022	<u>5</u>	<u>71,084,907</u>	<u>3,297,011</u>	<u>(43,307,394)</u>	<u>31,074,529</u>	<u>28,307</u>	<u>31,102,836</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash used in operations	(1,793,363)	(1,837,345)
Income tax paid	(11,442)	(10,804)
	<u>(1,804,805)</u>	<u>(1,848,149)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(690,836)	(997,184)
Purchase of intangible assets	(43,872)	(112,292)
Proceeds from disposal of property, plant and equipment	5,712	1,045
Increase in investments accounted for using the equity method	(64,349)	–
Dividend received from financial assets at fair value through profit and loss	11,579	19,787
Acquisition of debt and equity investments	(214,992)	(2,665,936)
Acquisition of structured deposits	(2,030,000)	(2,665,000)
Disposal of debt and equity investments	49,082	13,927
Disposal of structured deposits	1,636,805	2,478,470
The intention money paid for purchase of an office property	–	(200,000)
Net decrease/(increase) in investments in term deposits	1,625,297	(1,693,557)
Interest received from banks	105,410	109,525
Loans granted to a related party	(5,115)	(10,163)
	<u>384,721</u>	<u>(5,721,378)</u>
Net cash generated from/(used in) investing activities		

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Proceeds from borrowings	764,331	724,096
Repayments of borrowings	(200,514)	–
Interest paid	(61,857)	(11,044)
Principal elements of lease payments	(98,778)	(92,407)
Interests elements of lease payments	(7,422)	(10,905)
Net proceeds from exercise of over-allotment option	–	692,807
Net increase in restricted cash	(41,611)	(169,169)
Capital injection by limited partners of investment fund controlled by the Group	45,500	43,000
Payment of listing fee	–	(1,570)
Proceeds from exercise of restricted shares and share options	13,550	2,519
	413,199	1,177,327
Net cash generated from financing activities	413,199	1,177,327
Net decrease in cash and cash equivalents	(1,006,885)	(6,392,200)
Cash and cash equivalents at beginning of period	7,962,813	16,529,506
Effect of foreign exchange rates changes	197,087	236,320
Cash and cash equivalents at end of period	7,153,015	10,373,626

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1 GENERAL INFORMATION

SenseTime Group Inc. (the “**Company**”) was incorporated in the Cayman Islands on 15 October 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 structured 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 Company is a leading AI software company with customers across a broad spectrum of industries.

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

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

The interim condensed consolidated financial information is presented in thousands of Renminbi (“**RMB’000**”), unless otherwise stated. This interim condensed consolidated financial information was approved for issue by the Board of Directors on 28 August 2023.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), as set out in the Company’s annual report dated 28 March 2023 except for the adoption of amended standard as disclosed in Note 3.

3 NEW STANDARDS AND INTERPRETATIONS

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those annual financial statements.

Taxes on income for the interim period are accrued using the estimated tax rates that would be applicable to expected total annual assessable profit.

(a) New or amended standards adopted by the Group

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies as a result of adopting these standards except IAS 12 (Amendments).

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2023:

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction Tax

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

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations, and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- (i) right-of-use assets and lease liabilities, and
- (ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments as of 31 December 2022 was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

The Group has adopted International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12 upon their release on 23 May 2023. The amendments provide a temporary mandatory exception applying retrospectively from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure from 31 December 2023.

As an exception to requirements in the amendments to IAS 12, the Group neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes because no new legislation to implement the top-up tax was enacted or substantively enacted at 31 December 2022 in any jurisdiction in which the Group operates.

The relief and the new disclosures will also be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2023.

(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 1 January 2023 and have not been early adopted by the Group in preparing the interim condensed consolidated financial statements. None of these is expected to have a significant effect on the interim condensed consolidated financial information of the Group.

		Effective for annual periods Beginning on or after
IAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2024
IAS 1 (Amendment)	Non-current liabilities with covenants	1 January 2024
IFRS 16 (Amendment)	Lease liability in sale and leaseback	1 January 2024
IAS 7 (Amendment)	Supplier Finance Arrangements	1 January 2024
IFRS 10 and IAS 28 (Amendment)	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 discrete 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) Geographical information

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 during the six months ended 30 June 2023:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	1,203,994	1,140,734
Northeast Asia	185,367	227,706
Southeast Asia	11,169	4,213
Others*	32,592	42,690
	1,433,122	1,415,343

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

(b) **Non-current assets**

The total of the non-current assets including property, plant and equipment, right-of-use assets and intangible assets as at 30 June 2023, broken down by the location of the assets, is as follows:

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i>
Mainland China	7,952,403	7,498,318
Northeast Asia	57,341	66,301
Southeast Asia	21,470	27,054
Others	71,911	55,318
	<u>8,103,125</u>	<u>7,646,991</u>

(c) **Information about major customers**

The major customers which contributed more than 10% of total revenue of the Group for the six months ended 30 June 2023 are listed as below:

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Percentage of revenue from the major customers to the total revenue of the Group		
Client A	12.7%	–
Client B	*	19.8%
Client C	*	16.9%

* represents that the amount of aggregate revenue from such customer is less than 10% of the total revenue for respective period.

(d) **Disaggregation of revenue from contracts with customers by the timing of revenue recognition is as follows:**

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Revenue		
– recognised point in time	1,178,109	1,336,432
– recognised over time	255,013	78,911
	<u>1,433,122</u>	<u>1,415,343</u>

5 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Employee benefit expenses (a)	1,909,104	2,093,511
Hardware costs and project subcontracting service fees	643,147	417,367
Depreciation and amortization	592,294	459,299
Professional service and other consulting fees	299,305	399,093
Marketing, conference and travelling expenses	118,839	77,573
Utilities, property management and administrative expenses	90,297	35,292
Server operation and cloud based service fees	51,673	135,040
Data labelling fees	20,930	30,534
Taxes and surcharges	21,540	13,696
Research and development tools and consumables	13,733	22,760
Other expenses	21,246	3,242
Total	3,782,108	3,687,407

- (a) During the six months ended 30 June 2023, employee benefits expenses included the share-based compensation expenses of approximately RMB233,934,000 (for the six months ended 30 June 2022: RMB299,355,000).

6 OTHER LOSSES – NET

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Fair value losses on financial assets at fair value through profit or loss	(505,252)	(339,319)
Donations	(417)	(8,427)
Net foreign exchange losses	(246,652)	(447,467)
Losses on disposal of property, plant and equipment	(1,725)	(257)
Others	(20)	(3,314)
	(754,066)	(798,784)

7 INCOME TAX CREDIT

(i) Cayman Islands

The Company was redomiciled to 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 China

Entities incorporated in Hong Kong China are subject to Hong Kong China profits tax at a rate of 16.5% for the periods presented (for the six months ended 30 June 2022: 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 1 January 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 during the six months ended 30 June 2023 (for the six months ended 30 June 2022: 17%, 5%).

(v) Japan

Enterprise incorporated in Japan are subject to income tax rate at the state level of 23.2% during the six months ended 30 June 2023 (for the six months ended 30 June 2022: 23.2%).

(vi) Malaysia

Malaysia income tax rate is 24% during the six months ended 30 June 2023 (for the six months ended 30 June 2022: 24%). In the case that the paid-up capital is Malaysia 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) 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 for the six months ended 30 June 2023 (for the six months ended 30 June 2022: 25%), 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 SenseAuto**”, formerly named 上海商湯臨港智能科技有限公司, “**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% during the six months ended 30 June 2023 (for the six months ended 30 June 2022: Beijing SenseTime, Shenzhen SenseTime, Shanghai SenseTime, Shanghai SenseAuto). This status is subject to a requirement that Beijing SenseTime, Shenzhen SenseTime, Shanghai SenseTime and SenseTime Lingang reapply for HNTes status every three years.

SenseTime 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.

(viii) 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 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong China meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong China, the relevant withholding tax rate will be reduced from 10% to 5%.

During the six months ended 30 June 2023, no deferred income tax liability on WHT was accrued as at the end of each reporting period because the subsidiaries of the Group were primarily loss making in these periods (for the six months ended 30 June 2022: nil).

	Six months ended 30 June	
	2023	2022
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Current income tax	(3,537)	(8,674)
Deferred income tax	127,753	122,978
	124,216	114,304
Income tax credit	124,216	114,304

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 six months ended 30 June 2023.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company (RMB’000)	(3,122,744)	(3,157,653)
Weighted average number of ordinary shares in issue	31,958,495,179	31,898,368,165
Basic loss per share (expressed in RMB per share)	(0.10)	(0.10)

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. For the six months ended 30 June 2023, the Company has three categories of dilutive potential ordinary shares: Preferred share issued by a subsidiary of the Company, restricted share units (“RSUs”), and share options. As the Group incurred losses for the six months ended 30 June 2023, 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 six months ended 30 June 2023 is the same as basic loss per share of the respective period (for the six months ended 30 June 2022: same as basic loss per share of the respective period).

9 DIVIDENDS

No dividend had been declared or paid by the Company during the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Leasehold improvement	Large-scale electronic equipment	Computers and related equipment	Office equipment and furniture	Transportation equipment and vehicles	Other equipment	Construction in progress	Total
At 31 December 2022									
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)
Net book amount	4,414,448	43,756	1,772,531	230,376	37,477	31,289	29,455	439,678	6,999,010
(Unaudited)									
Six months ended									
30 June 2023									
Opening net book amount	4,414,448	43,756	1,772,531	230,376	37,477	31,289	29,455	439,678	6,999,010
Additions	120	-	606,969	80,089	12,108	588	1,305	86,264	787,443
Internal transfer	6,525	131,978	231,812	2,555	9	2,674	-	(375,553)	-
Disposals	-	-	(896)	(5,152)	(454)	-	(798)	(137)	(7,437)
Depreciation charge	(65,101)	(24,455)	(262,714)	(55,911)	(6,011)	(5,894)	(2,126)	-	(422,212)
Currency translation differences	(806)	112	529	(160)	(331)	(232)	(580)	73	(1,395)
Closing net book amount	4,355,186	151,391	2,348,231	251,797	42,798	28,425	27,256	150,325	7,355,409
At 30 June 2023									
Cost	4,567,138	368,314	3,569,737	676,779	71,794	59,350	34,820	150,325	9,498,257
Accumulated depreciation	(211,952)	(216,923)	(1,221,506)	(424,982)	(28,996)	(30,925)	(7,564)	-	(2,142,848)
Net book amount	4,355,186	151,391	2,348,231	251,797	42,798	28,425	27,256	150,325	7,355,409

- (a) As at 30 June 2023, certain buildings with carrying amount of RMB4,337,754,000 (31 December 2022: RMB4,376,326,000) were pledged as collaterals for the Group's borrowings (Note 14).
- (b) During the six months ended 30 June 2023, depreciation charges were expensed off in the following categories in the interim condensed consolidated income statement:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Research and development expenses	232,732	212,666
Administrative expenses	99,826	62,933
Cost of sales	79,247	12,004
Selling expenses	10,407	10,166
	422,212	297,769

11 TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000
Notes receivables	61,808	80,673
Provision for impairment	(49,022)	(49,031)
	<u>12,786</u>	<u>31,642</u>
Trade receivables		
– Due from related parties	14,885	47,405
– Due from third parties	7,711,222	7,748,873
	<u>7,726,107</u>	<u>7,796,278</u>
Gross trade receivables	7,726,107	7,796,278
Provision for impairment	(2,919,315)	(2,578,516)
	<u>4,806,792</u>	<u>5,217,762</u>
Other receivables		
– Refundable deposits (<i>i</i>)	55,426	63,407
– Loans to related parties	21,352	15,959
– Payments on behalf of customers	431,556	429,475
– Others	78,558	73,237
	<u>586,892</u>	<u>582,078</u>
Gross other receivables	586,892	582,078
Provision for impairment	(393,482)	(370,941)
	<u>193,410</u>	<u>211,137</u>
Prepayments	145,359	107,587
Input VAT to be deducted	606,574	503,547
	<u>5,764,921</u>	<u>6,071,675</u>
Total trade, other receivables and prepayments	<u>5,764,921</u>	<u>6,071,675</u>

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000
Bank's notes receivables		
– Up to 6 months	<u>12,808</u>	<u>31,673</u>
Commercial notes receivables		
– 1 to 2 years	47,300	49,000
– 2 to 3 years	<u>1,700</u>	<u>-</u>
	<u>61,808</u>	<u>80,673</u>

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 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000
Up to 6 months	815,857	1,995,560
6 months to 1 year	1,369,041	746,068
1 to 2 years	2,893,900	3,244,937
2 to 3 years	2,022,390	1,179,960
3 to 4 years	509,440	582,289
More than 4 years	<u>115,479</u>	<u>47,464</u>
	<u>7,726,107</u>	<u>7,796,278</u>

- (i) Refundable deposits consists primarily of security deposits for rental and projects.

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at fair value through profit or loss

The Group classified the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income;
- 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 other comprehensive income.

Financial assets mandatorily measured at FVPL include the following:

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i>
Non-current assets		
Debt investments (a)		
– Unlisted entities	3,413,257	3,690,089
– Investments in bonds	1,607,763	1,523,159
– Fund	614,667	585,512
Equity investments (b)		
– Listed entities	519,021	631,337
– Unlisted entities	301,374	246,436
	6,456,082	6,676,533
Current assets		
Structured deposits (c)	1,033,290	632,124
	7,489,372	7,308,657

(a) **Debt investments**

The movement of the debt investments during the six months ended 30 June 2023 is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At beginning of the period	5,798,760	3,665,678
Additions	167,966	2,036,694
Disposals	(5,627)	–
Fair value changes	(437,892)	(248,439)
Currency translation differences	112,480	158,751
	<hr/>	<hr/>
At end of the period	5,635,687	5,612,684

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 during the six months ended 30 June 2023 is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At beginning of the period	877,773	645,292
Additions	50,000	629,242
Disposals	(43,455)	(13,927)
Fair value changes	(75,331)	(98,479)
Currency translation differences	11,408	30,856
	<hr/>	<hr/>
At end of the period	820,395	1,192,984

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 China. The wealth management products were non-principal protected with maturity of less than 1 year.

The movement of the wealth management products during the six months ended 30 June 2023 is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At beginning of the period	632,124	272,549
Additions	2,030,000	2,665,000
Disposals	(1,636,805)	(2,478,470)
Fair value changes	7,971	7,599
	<hr/>	<hr/>
At end of the period	1,033,290	466,678
	<hr/>	<hr/>

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

During the six months ended 30 June 2023, the following (losses)/gains were recognised in the interim condensed consolidated income statement:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fair value (losses)/gains on investments in:		
– Debt investments	(437,892)	(248,439)
– Equity investments	(75,331)	(98,479)
– Structured deposits	7,971	7,599
	<hr/>	<hr/>
	(505,252)	(339,319)
	<hr/>	<hr/>

13 TRADE AND OTHER PAYABLES

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i>
Notes payables	–	1,691
Trade payables		
– Third parties	760,410	842,792
– Related parties	5,295	4,378
Other payables		
– Third parties	472,749	574,256
– Related parties	1,669	2,148
Payables on purchase of property, plant and equipment and intangible assets		
– Third parties	576,317	387,521
– A related party	55,000	–
Accrued taxes other than income tax	120,870	223,530
Staff salaries and welfare payables	318,505	400,977
VAT payables related to contract liabilities	13,469	15,410
Accrued warranty expenses	16,886	19,878
	<u>2,341,170</u>	<u>2,472,581</u>

Aging analysis of the trade payables and notes payables based on purchase date at the end of 30 June 2023 are as follows:

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i>
Up to 6 months	519,996	718,327
6 months to 1 year	189,359	76,660
1 to 2 years	13,152	19,477
More than 2 years	43,198	34,397
	<u>765,705</u>	<u>848,861</u>

14 BORROWINGS

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i>
Non-Current		
Bank borrowing – secured	3,193,259	2,909,453
Bank borrowing – guaranteed	439,815	–
Less: current portion of non-current borrowings	(11,220)	(2,300)
	<u>3,621,854</u>	<u>2,907,153</u>
Current		
Short-term bank borrowing – guaranteed	156,444	316,248
Current portion of non-current borrowings	11,220	2,300
Interest payable	3,329	2,913
	<u>170,993</u>	<u>321,461</u>
Total	<u>3,792,847</u>	<u>3,228,614</u>

Secured bank borrowing

As at 30 June 2023, the Group had bank borrowings with carrying amount of RMB260,390,000 which were secured by the Group's restricted deposits of USD43,900,000 (equivalent to RMB325,169,000) (31 December 2022: bank borrowings with carrying amount of RMB229,700,000 which were secured by the Group's restricted deposits of USD38,600,000 (equivalent to RMB271,392,000)).

As at 30 June 2023, the Group had a bank borrowing with carrying amount of RMB1,268,729,000 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 with a carrying amount of RMB1,105,292,000 (Note 10(a)) and land use right with a carrying amount of RMB63,840,000 (31 December 2022: buildings with a carrying amount of RMB1,109,380,000 and land use right with a carrying amount of RMB64,517,000) respectively were also pledged as collaterals for this bank borrowing.

As at 30 June 2023, the Group had a bank borrowing with carrying amount of RMB1,664,140,000 which was pledged by certain buildings with a carrying amount of RMB3,232,462,000 (Note 10(a)) as a collateral for the Group's borrowings (31 December 2022: certain buildings with a carrying amount of RMB3,266,946,000).

Guaranteed bank borrowings

As at 30 June 2023, the Group had non-current bank borrowings with carrying amount of RMB296,715,000 which were guaranteed by SenseTime Group Limited.

As at 30 June 2023, the Group had current bank borrowings with carrying amount of RMB156,444,000 which were guaranteed by SenseTime Group Limited. (31 December 2022: RMB316,248,000 which were guaranteed by SenseTime Group Limited.).

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:

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i>
6 months or less	121,854	199,954
Between 6 and 12 months	45,810	118,594
Between 1 and 2 years	78,255	6,300
Between 2 and 5 years	1,154,492	610,565
Over 5 years	2,389,107	2,290,288
Total	3,789,518	3,225,701

15 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2023 and up to the date of this announcement, there is no material subsequent event.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries or consolidated affiliated entities purchased, sold or redeemed any of the Company's securities 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 the 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 corporate governance requirements under the Corporate Governance Code set out in Appendix 14 to the Listing Rules save for code provisions C.2.1 and F.2.2 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.

In addition, code provision F.2.2 of the Corporate Governance Code provides that, amongst others, that the chairman of the Board should attend the annual general meeting. Due to other work engagement of the Group, Dr. Xu Li, the chairman of the Board, was unable to attend the annual general meeting held by the Company on June 23, 2023. The aforementioned annual general meeting was attended by, amongst others, the independent non-executive Directors (who are also the chairmen of the Board committees of the Company) and the external auditors to ensure effective communication with the Shareholders.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2023 (June 30, 2022: Nil).

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.

Audit Committee

The Audit Committee (comprising two independent non-executive Directors, Mr. Lyn Frank Yee Chon (being the chairman of the Audit Committee) and Mr. Li Wei; and the non-executive Director, Ms. Fan Yuanyuan) has reviewed the unaudited interim condensed consolidated financial information 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, risk management, internal control and financial reporting with senior management members and the Auditor.

Publication of the Interim Results and Interim Report

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.sensetime.com. The interim report of the Company containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company and will be despatched to the Shareholders in due course.

DEFINITIONS

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

“AGI”	artificial general intelligence
“AI”	artificial intelligence
“AIDC”	artificial intelligence data centre
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company
“BEV”	bird’s-eye-view perception
“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
“Class B Share(s)”	the class B ordinary shares of the Company with a par value of US\$0.000000025 each
“Company”	SenseTime Group Inc. (商汤集团股份有限公司), an exempted company incorporated under the laws of Cayman Islands with limited liability, the Class B Shares of which are listed on the Main Board of the Stock Exchange (stock code: 0020 (HKD Counter) and 80020 (RMB Counter))
“Director(s)”	director(s) of the Company
“Dr. Xu Li”	Dr. Xu Li (徐立), the Company’s co-founder, executive Chairman of the Board, executive Director, chief executive officer and a WVR Beneficiary (within the meaning ascribed thereto under the Listing Rules)
“exaFLOPS”	one quintillion (10 ¹⁸) floating-point operations per second
“GPU”	graphic processing unit
“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
“ISP”	image signal processor
“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 six months ended June 30, 2023
“RMB”	Renminbi, the lawful currency of the PRC
“R&D”	research and development
“SDK”	software development kit, a set of software development tools in one installable package that can be used to create and develop applications
“SenseAuto”	our intelligent automotive platform
“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, August 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.