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QINGDAO AINNOVATION TECHNOLOGY GROUP CO., LTD*

青島創新奇智科技集團股份有限公司

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

(Stock Code: 2121)

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

The board of directors (the “**Board**”) of Qingdao AlInnovation Technology Group Co., Ltd* (the “**Company**”, and its subsidiaries, the “**Group**”) is pleased to announce the annual results of the Group in the fiscal year ended 31 December 2023 (the “**Reporting Period**”), together with the comparative figures for the last fiscal year (the fiscal year ended 31 December 2022).

Financial Summary

	Year ended 31 December				
	2019	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	229,141	462,324	861,168	1,557,643	1,751,045
Gross profit	71,613	134,621	267,241	507,078	588,485
Operating loss	(221,956)	(286,801)	(622,841)	(392,291)	(600,012)
Loss for the year	<u>(248,359)</u>	<u>(360,635)</u>	<u>(635,124)</u>	<u>(361,160)</u>	<u>(570,272)</u>
Add:					
Share-based payment expenses	53,230	133,750	406,967	173,294	290,271
Finance cost of financial liabilities of redeemable shares	35,158	82,406	34,877	—	—
Listing expenses	—	—	51,500	26,457	—
Amortization of intangible assets arising from acquisition	—	—	—	14,292	36,135
Changes in fair value of financial assets/liabilities at fair value through profit or loss	—	—	—	8,716	89,683
Adjusted net loss (Unaudited)	<u>(159,971)</u>	<u>(144,479)</u>	<u>(141,780)</u>	<u>(138,401)</u>	<u>(154,183)</u>

	As at 31 December				
	2019	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	854,514	1,395,806	2,264,907	3,268,447	3,289,157
Cash and cash equivalents	605,631	1,042,502	1,553,150	1,642,665	1,344,615
Total liabilities	<u>1,017,680</u>	<u>1,909,833</u>	<u>469,599</u>	<u>909,472</u>	<u>1,065,012</u>

Premium customer revenue value

	Year ended 31 December	
	2022	2023
Number of premium customers	71	81
Premium customer revenue (RMB in thousands)	1,350,995	1,427,718
Premium customer dollar based repeating rate	82.1%	41.6%
Total number of customers	292	397
Total revenue (RMB in thousands)	1,557,643	1,751,045

Revenue-By Type of Products/Services

	Year ended 31 December			
	2022		2023	
	Amount	%	Amount	%
	<i>RMB'000</i>		<i>RMB'000</i>	
Sales of products and solutions	1,522,229	97.7	1,632,358	93.2
Services of data solutions	35,414	2.3	118,687	6.8
Total	<u>1,557,643</u>	<u>100.0</u>	<u>1,751,045</u>	<u>100.0</u>

Revenue-By Customer Type

	Year ended 31 December			
	2022		2023	
	Amount	%	Amount	%
	<i>RMB'000</i>		<i>RMB'000</i>	
System integrators	931,729	59.8	961,992	54.9
End-users	625,914	40.2	789,053	45.1
Total	<u>1,557,643</u>	<u>100.0</u>	<u>1,751,045</u>	<u>100.0</u>

Revenue-By Industry Verticals

	Year ended 31 December			
	2022		2023	
	Amount	%	Amount	%
	<i>RMB'000</i>		<i>RMB'000</i>	
Manufacturing	948,213	60.9	1,176,425	67.2
Automotive equipment	285,047	18.3	393,097	22.5
3C high-tech	106,561	6.8	135,269	7.8
OLED panel semiconductors manufacturing	133,609	8.6	122,897	7.0
Iron and steel metallurgy	129,078	8.3	65,270	3.7
Energy and Power	99,010	6.4	70,440	4.0
Engineering and Construction	83,632	5.4	105,610	6.0
Food & Beverage and New Material	—	—	140,580	8.0
Intelligent manufacturing practical training	—	—	105,643	6.0
Others	111,276	7.1	37,619	2.2
Financial services	382,335	24.5	401,829	22.9
Other industries	227,095	14.6	172,791	9.9
Total	<u>1,557,643</u>	<u>100.0</u>	<u>1,751,045</u>	<u>100.0</u>

Business Overview

Part I: Business Review

As China's largest "AI + manufacturing" solution provider and a National Specialized and New Small Giant Enterprise, AInnovation continuously explores cutting-edge artificial intelligence technologies to empower manufacturing, resolves practical issues in industrial scenarios, and helps corporate customers reduce costs and improve efficiency and quality, promoting digitalization transformation and high-quality development. In 2023, benefiting from breakthroughs in innovations of artificial intelligence technology and our continued deep cultivation in the manufacturing industry, AInnovation maintained positive growth, with multiple operational indicators showing positive development and the fundamental strength of the enterprise continuously solidifying. Specific performances are as follows:

During the Reporting Period, our revenue reached RMB1,751.0 million, up 12.4% year-on-year; and gross profit amounted to RMB588.5 million, up 16.1% year-on-year. Our gross profit margin was 33.6%, improved 1 percentage point as compared to the last period. During the year, we firmly implemented the "Focus" strategy: We focused more on our main manufacturing business, with revenue from the "AI + manufacturing" business segment reaching RMB1,176.4 million, a 24.1% increase year-on-year, and the proportion of overall revenue increasing significantly to 67.2%, significantly improved year-on-year 6.3 percentage points; we further focused on high-quality business to promote continuous improvement in gross profit margin; we further concentrated on customer success, with number of customers increasing from 292 in 2022 to 397 in 2023, up 36.0% year-on-year; we further emphasized operational quality, realizing that the adjusted net loss rate continued to narrow from the previous fiscal year, and the net cash used in operating activities significantly improved from the previous fiscal year (a significant year-on-year improvement of 40.7%) as the revenue continued to increase, which ensures the steady and sustainable operation of the Company. Under the impetus of the "Focus" strategy and "Refined" management, we substantially optimized our business structure and improved our operation level, transforming toward high-quality development. In 2023, AInnovation was honored with the "Shandong Provincial High-Quality Development Award Enterprise" ("山東省級高質量發展獎勵企業") by the Department of Industry and Information Technology of Shandong Province.

In this year, we focused on empowering the AI manufacturing industry, continuously strengthening the ecosystem, and enhancing industry-research cooperation. We reached a strategic cooperation with the Cloud Computing & Big Data Research Institute of China Academy of Information and Communications Technology (CAICT), jointly promoting the formulation of AI technology standards and empowering the industrialisation and conducting the preparation of the first domestic industrial large language model (LLM) standard and technical evaluations. We also established a strategic cooperation with Advantech, enabling AIInnovation industrial LLM to collaborate with Advantech's industrial cloud platform to empower the manufacturing industry. On the capital front, we explored regional industrial advantages and capital resources, jointly established merger and acquisition fund by combining our development strategies, efficiently inflicting impetus on deep integration and development between artificial intelligence and manufacturing and achieving preliminary result. At the same time, as the leading enterprise in the artificial intelligence industry chain in Qingdao, we are driving the development of the upstream and downstream sectors of the industry chain. We are also the center for digital transformation empowerment for the manufacturing and high-end equipment industry in Qingdao and the center for digitalization empowerment for equipment manufacturing and textile and apparel in Qingdao. We empower ecological development of industry by combining local superior industrial resources and our own technology features.

Effective corporate development strategies and the vast market in the manufacturing industry have further propelled our continuously rising status in the artificial intelligence market. According to IDC's "China Artificial Intelligence Software and Application Market Research Report," AIInnovation has climbed to the third position in terms of the China's computer vision market share and consistently ranks fourth in terms of the machine learning platform market share. Meanwhile, we are actively expanding into the industrial software segment market, and in IDC's "Analysis of MES Market and Vendor Shares of Chinese manufacturing industry"(《IDC中國製造業MES市場分析及廠商份額》) report, we rank second in terms of the market share in the food, beverage, and tobacco segmentation field. "MOM (Manufacturing Operation Management) + AI Industrial Internet Platform" was selected as national special and professional industrial internet platform, which means we have tapped into the national first echelon of industrial internet platform.

We have always positioned ourselves with a pragmatic attitude and a forward-looking perspective in deploying artificial intelligence technology. As a national intellectual property advantage enterprise, we consistently adhere to national intellectual property standards. In 2023, we passed the Standard Certification Review of Intellectual Property Rights, marking our entry into the domestic advanced level in standardized management, creation, application, and protection of intellectual property. As of 31 December 2023, we have accumulated 1,286 patent applications, among which 80.9% are invention patents, with 524 patents granted including 305 invention patents. According to the statistics from IPRdaily, a global comprehensive intellectual property information service provider, AInnovation ranks 19th in the global industrial vision AI invention patent data applied and published in China over the past three years. Simultaneously, we actively expand into the AI2.0, era driven by the AIGC, intensifying research and development efforts in AIGC and large model-related technologies. According to IPRdaily's data, we ranked 35th in China's AI large model enterprise invention patent lists. In 2023, the "AInnoGC Industrial LLM" also received widespread recognition. In the CAICT's Compliance Verification of "Large-scale Pre-trained Model Technology and Application Evaluation Methods(《大規模預訓練模型技術和應用評估方法》)," AInnovation, with its "AInnoGC Industrial LLM," jointly received an outstanding level (4+) verification alongside other renowned domestic AI companies such as Huawei, Tencent, and iFlytek. At the end of 2023, MIT Technology Review released 15 advanced application cases of Chinese AI large models, focusing on the application and deployment capabilities of AI large models. AInnovation, with the "AInnoGC Industrial LLM," was listed together with other well-known domestic AI companies such as Huawei, Baidu, and Baichuan.

We firmly believe that the value of innovative technology lies in helping solve real-world problems. For example, the manufacturing industry has a significant need for product quality inspection and foreign object recognition. Through serving our clients, we discovered that visual recognition tasks often fail to meet expectations due to limited sample data and high annotation costs. To address this issue, in 2023, our research achievements in fine-grained visual recognition technology were recognized by top academic conferences worldwide. At NeurIPS 2023, we presented a new approach for fine-grained learning from coarse labels (PE-HCM), and our research paper was received by the conference. Additionally, we won first place both in the SnakeCLEF and PlantTraits tracks of the Fine-Grained Visual Categorisation (FGVC) competition at CVPR 2023. These research achievements enable the differentiation of extremely small differences in objects, eliminating the need for costly data annotation by domain experts. They have high application value in areas such as product recognition, defect detection, and security protection.

Establishment of Artificial Intelligence Technology Twin Towers

In 2023, the rapid development of large models, represented by ChatGPT, mainly manifested in the expansion of model scale, improvement of cross-modal interaction capabilities, and adaptability to more domains. With the growth of data volume and the enhancement of computational power, the scale of large models will continue to increase, enabling them to handle more complex tasks. Recently, OpenAI released Sora, a large multimodal model, which not only has the ability to generate and understand text but also can process various modalities of data such as images and videos, enabling machines to interact more naturally with humans. This cross-modal interaction method will make human-machine interaction more convenient.

The development of large models will make artificial intelligence more intelligent and comprehensive, leading to profound impacts across various industries and domains. In 2023, the Company remained committed to deepening its expertise in new AI technologies, increasing investment in the research and development of AI technology twin towers, strengthening its technical capabilities in both analytical AI and generative AI directions, actively deploying new products and solutions, and promoting business development to new heights through technological innovation.

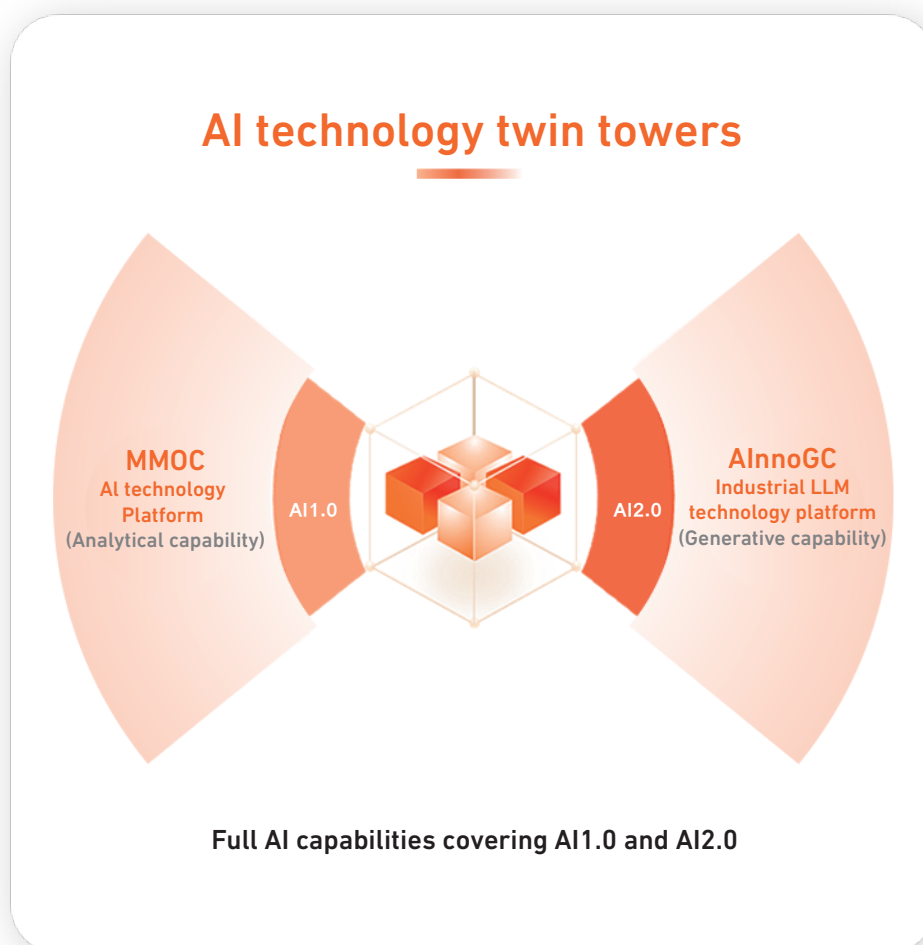


Figure (1) AInnovation “AI technology twin towers”

AInnovation MMOC artificial intelligence technology platform continues to focus on key scenario applications, maintaining a fast-paced development rhythm and continuously improving maturity, effectively supporting the scalable development of business.

- ✧ **ManuVision Intelligent Machine Vision Platform:** focusing on panel glass defect detection applications, it scales to support delivery of multiple customer projects. Significant improvements have been made in platform usability, operator richness, and deliverability.
- ✧ **MatrixVision Intelligent Edge Video Platform:** targeting industrial safety production applications, it addresses the needs of large-scale business delivery by establishing a standardized hardware testing laboratory, greatly enhancing platform stability, and expanding available computing power types as needed.
- ✧ **Orion Distributed Machine Learning Platform:** serving as a visual trainer, it achieves seamless integration with ManuVision and MatrixVision, enabling 100% online connectivity across the entire process. It becomes an essential component of visual intelligence solutions, effectively supporting the expansion of business with major clients of vision solutions.
- ✧ **Cloud Platform:** introducing MAAS (Model As A Service) service, enhancing model service efficiency. Meanwhile, as a public technology foundation, it leverages rich technological assets to efficiently support the rapid development and deployment of new directions such as AInnoGC.

The Company continues to increase investment in research and development of the “AInnoGC Industrial LLM” technology platform, enhancing capabilities in different aspects such as underlining algorithms, closed-loop model, platforms and implementation of application scenario. We are developing the AInnoGC 2.0, aiming to create an autonomous and controllable, industry-leading industrial LLM technology and product system.

- ✧ **ChatX series generative applications:** The key to implementing LLMs lies in their application. The Company has successively launched several native applications of LLM, empowering solution upgrades and innovations, and accelerating business implementation.
- o ChatBI-generative enterprise private domain data analysis: To address industrial data analysis, leveraging industrial LLM, optimizing Text-to-SQL and Text-to-Chart capabilities to create structured data analysis applications.
 - o ChatDoc-generative enterprise private domain knowledge Q&A: To address equipment management and expertise information consultation, optimizing capabilities such as knowledge construction, Q&A, traceability, and recommendations, to launch a new generation of Q&A applications.
 - o ChatRobot-generative industrial robots scheduling: The combination of industrial robots and industrial LLM presents a forthcoming deep revolution in underlying logic of industrial production. This combination will not only improve efficiency and quality of industrial production, but also promote process of industrial intelligence and automation, bringing great prospect for industrial development.

First of all, the high precision, high efficiency and flexibility of industrial robots enable its increasingly important role in production line. By virtue of analysis and studies conducted on mass data, industrial LLM is able to provide more precise operation instructions and optimization advices for industrial robots. This combination enables wider application of industrial robots and makes them better meet timely, complicated and fine production needs.

In addition, industrial LLM can also provide more intellectual decision support for industrial robots. Industrial LLM is able to forecast future production trend and needs through studies and analysis on historical data, thus providing optimization advices on mission scheduling, path planning and other aspects for industrial robots. This enables more intelligence of industrial robots' application and makes them automatically adapt to different production environments and task needs.

Based on above, the Company combines the task scheduling capability of industrial LLM, enhances machine language understanding and generation, and introduces ChatRobot, an interactive industrial robot scheduling application, which injects powerful intelligent control and decision capability in industrial robots.

- Conversational interaction: Automatic scheduling of implementation orders and automatic compiling codes, which procure robots to carry out tasks, are available through simple conversations and instructions, which effectively reduces requirements for manipulating robots.
 - Complicated purposes understanding: Being able to analyze the real purpose of users and effectively understand complicated needs behind conversation based on multiple rounds of conversation according to questions provided by users.
 - Long sequence of tasks scheduling: Automatically disassembling instructions comprising various steps to concrete tasks that can be directly implemented by robots, concretizing fuzzy instructions, thus increasing robots' implementation efficiency.
 - Responsible decisions driving: Procuring relevant actions of robots through automatic decisions by LLM, and ensuring that robots can complete tasks instructed by users with high efficiency and precision and better adapt to environmental changes.
- o ChatVision-generative enterprise private visual insight: For scenarios of safety production and efficient operation and maintenance based on machine vision, as well as the Multimodal LLM and the capability for external function call, leveraging the Company's existing visual algorithm assets and introducing a new generation of machine visual insight analysis application.
- Natural Language Interaction: Utilizing LLMs to comprehend user intent, including understanding and mastering industry knowledge, high-density knowledge, and continuous-time intent.
 - Agent Intelligent Orchestration: Based on user intent, using the capabilities of industrial LLM task scheduling and external function call, fully utilizing existing visual technology assets to flexibly construct diverse visual detection solutions.
 - Multimodal Analysis: Based on industrial LLM with multimodal capabilities, conducting comprehensive analysis of pictures and videos, and enabling a comprehensive understanding and structured handling of visual data. For example, it is capable of locating and capturing the content of a specific scene in real time according to the instructions.

- Results Insight: Performing insight analysis on visual analysis results, generating reports and graphs and other results, and triggering emails, alarms and other auxiliary services on demand.
- o ChatCAD-generative aided industrial design: Industrial software is an indispensable pillar in promoting the high-quality development of modern intelligent manufacturing. It plays a key role in realizing industrial intelligent transformation and provides a solid foundation for innovation and upgrading in all industries. CAD (Computer-Aided Design), as the cornerstone software for industrial design, has always been at the forefront of the industrial chain. For a long time, China's CAD industrial design software market has been dominated by foreign developers. To end such dominance and keep pace with the widespread application of Text-to-Text, Text-to-Image, Text-to-Video (Sora) and other technologies in various industries, AInnovation has first integrated industrial LLM with industrial design and developed a generative computer aided industrial design software – ChatCAD, which is an autonomous and controllable Text-to-CAD application. Through simple conversational question answering, ChatCAD can quickly understand the designer's intentions and generate industrial design drawings that meet the requirements. This not only greatly improves the efficiency and quality of industrial design, but also promotes the widespread application of LLM technology in the upstream of industrial production, contributing to accelerating the localization of industrial software of China.
 - Natural Language Driven: ChatCAD allows users to describe design requirements through intuitive text input. The system can quickly analyze these requirements and automatically generate parametric industrial design model accordingly, significantly reducing reliance on complex operations of traditional design software.
 - Understanding of Design Requirements: Based on the in-depth understanding of industrial field knowledge, the industrial LLM enables ChatCAD to accurately analyze and understand key design parameters in the industrial field, ensuring that the system can accurately identify the user's design intentions and perform corresponding design operations in accordance with industry specifications.
 - Interactive Design Optimization: ChatCAD has an enhanced function of interactive modification, allowing users to make fine-tuning adjustments and iterative optimizations to the generated designs, and display the results in real time based on the adjustments before meeting the delivery standards.

Enrichment of AI products and solutions

In 2023, we were committed to strengthening the research and development of artificial intelligence-generated content (AIGC) technology and deepening its application in the industrial application field. We focused on the deep application of large models, including the automatic induction and generation of enhanced industrial knowledge, accurate industrial data analytics technology, and efficient industrial automation task scheduling system. Through these technological advancements, the intelligence level of our products and solutions has been significantly improved. In addition, relying on the further maturity of the MMOC artificial intelligence platform and the rapid iteration of AIInnoGC, we have deeply embedded artificial intelligence technology into industry products and solutions, continuously improving its level of intelligence and promoting standardized replication on the customer side. In key market segments such as iron and steel metallurgy, panel semiconductor, automotive equipment, intelligent manufacturing practical training, Food & Beverage and New Material and finance, we continued to explore and deepen value, and promote the integration and expansion of artificial intelligence and diverse business scenarios, aiming to expand the application scenarios and industries of artificial intelligence, and promote innovation, development, transformation and upgrading. At the same time, we also created a matrix of specialized, refined and innovative products and solutions in key business areas to provide more comprehensive and systematic digital and intelligent transformation and upgrading solutions for customers in manufacturing industry, laying a solid foundation for high-quality business growth.

In the field of Food & Beverage and New Material, based on the MOM manufacturing operation management system solutions that have been developed in the Food & Beverage, high-end new materials, automotive equipment and other sub-industries for many years, we make every effort to create AI + MOM intelligent industrial software products and solutions from the following aspects. Firstly, we build a product matrix of “platform + product + industry suite”, optimize the technical system and product positioning for industrial software technology assets accumulated in each sub-industry, and optimize the general software components and business models at the platform level, the general functions of various manufacturing operation management software at the product level, and the common functions of customer groups in the sub-sector of industry suite. Therefore, the degree of product standardization and the efficiency of launching on the customer side have been continuously improved; secondly, with MOM products as the core, the coverage of products and solutions is steadily expanded to the research and development, the operation, and the marketing, providing consistent and systematic overall solution for the general information transformation of customers; finally, relying on AIInnoGC to comprehensively explore the application scene of large model technology in the whole

process of production and operation management of manufacturing enterprises. Through the deep integration with the above software products, the Copilot in the field of industrial software is established, and the value of massive data of enterprises is deeply explored to help enterprises make accurate decisions, reduce costs and increase efficiency. At present, we have carried out a lot of pioneering work with industry top-tier clients in scenarios such as enterprise knowledge base construction, interactive data analytics and report generation and marketing content generation, and achieved commercialization.

In the field of iron and steel metallurgy, under the new wave of industrial green transformation, “iSmartONE intelligent molten iron transportation system” marks a milestone of industry and is a central pillar of promoting low-carbon process in the industry. The system brings out a world-ever seen battery electric vehicle transportation solution with the combination of AI and 5G technology and completes transformation of big-scale unmanned in steel company. It also represents the breakthrough application of new energy technology in traditional industries, blazes a new trail to battery electric vehicle transportation and offers a feasible and the latest example for steel industry of green low-carbon transformation. Following successful application to a renowned steel company in Southern China, we have hit a new record of the amount of commercial contract, more importantly, extended application scenario of steel park to industrial logistic sector through technology innovation. This proves our advanced technology with applicability, which also lays a solid foundation for our development in steel and related industrial logistic sector. These breakthroughs demonstrate that we have already moved on to the intelligent logistic sectors of steel companies, mines and the ports, which stands more opportunities, from single molten iron transportation solution, and build a practical case and experience for the strategic layout and implementation for the digital and intelligent development of industrial logistic. Our technologies’ diversity and flexibility has showed off during the complete success of “1+N” industrial scenario and emphasized its application in ecosystem of steel industry providing a much more efficient, green and intelligent transportation solution.

In the field of panel semiconductors, we try our best to hand over a more comprehensive and high-efficiency glass panel quality inspection solution as well as multi-size silicon wafer intelligent quality inspection all-in-one products. During the year, high standardization and speedy delivery have been revealed in our solutions and products, which satisfied the diversify needs from user under various scenarios and ensured the quickly deployment and delivery of solutions and products. Under the help of pre-trained models and leading small sample learning and training algorithms provided by the MMOC platform, the glass panel quality inspection solution covers edge quality inspection and comprehensive quality inspection in LCD panel production, including key functions such as common panel defect detection and size measurement detection. The product

types that we support expand from TV screen to mobile phone and pad screen, as well as the material types of LCD, OLED and AMOLED. In terms of industry coverage, we expanded our business and made achievement in the LCD panel thinning industry. This year, we have carried out large-scale deployment of glass panel quality inspection solutions based on ManuVision technology, in leading domestic glass panel manufacturers such as China Star Optoelectronics Technology, BOE, Tianma, Visionox, etc. In the LCD panel thinning scenario, we have also completed products delivery and application in many listed companies in China. At the same time, in the semiconductor industry, the size of silicon wafers covered by our silicon wafer intelligent inspection all-in-one products has increased from 8 inches to 12 inches, the detection range and types of detection defects have fully expanded, in order to ensure the successful application in various domestic silicon wafer production enterprises. Our progress and success displayed the relentless pursuit of product standardization and delivery efficiency as well as the leading position in improving quality inspection standards and efficiency of semiconductor industry. Through continuously technology innovation and optimization, we strive to provide customers with solutions and products of higher quality and more efficiency and drive the development of the whole industry.

In the field of automotive equipment, we have launched an intelligent automation solution in the form of industrial robots based on big data and artificial intelligence, which marks a significant innovation in the industry, and achieves comprehensive application from high-tech intelligent factory to new energy base, further to refined semiconductor digital processes and complex and diverse discrete automated production lines. The highly intelligent industrial robot equipped with advanced sensor that can connect to cloud industrial LLM and leverage big data analytics and machine learning algorithms. It not only improves production process and predicates equipment failure, but conduct independent learning and adaptation by real-time monitor and data analysis and automativly adjust production strategy. Our solutions also include the professional support and assistance for high-end equipment to exceed customer expectations for product quality, production efficiency, cost control, information transparency and response speed in all aspects. By fully integrating key links such as primary inspection, process quality monitoring and final product review, we have set up a whole-process management system that can grasp the product quality on the production line in real time, quickly identify and solve the problems and ensure the efficiency and accuracy of the production process. Further, we have implemented a cross-departmental data sharing strategy and ensured the whole-process traceability of product quality, to achieve significant improvement on quality control, cost savings, production efficiency and other aspects. Our solution has been successfully deployed in many leading domestic automotive equipment manufacturers, which has greatly improved the production efficiency and product quality of these enterprises, consolidated our leading position in the industry and highlighted our commitment to and achievements in promoting technological innovation and industry development.

In the field of intelligent manufacturing practical training, we have established an efficient and integrating innovation platform of “Robot + Industry” and committed to transit the newest achievement of robot technology into application. Such platform combined various functions such as application innovating, R&D technology, test incubating, industry-academia-research cooperation as well as talent cultivation, to construct a “5+N” industrial ecosystem consisting of dominated enterprise, public services platform, industrial fund, leading talent and intermediary. According to the plan for the development of robotics industry during the 14th Five-Year Plan period, we worked together with various top-tier universities and the State Robot Testing and Evaluation Center (國家機器人檢測與評定中心) to establish first-class robotics laboratory and evaluation center, which targeted on intelligent perception, digital design, precision driving and other key technology aspects. At industrial internet innovation studio relating to artificial intelligence and big data, we have developed an interactive learning question-and-answer platform of addressing in real time, realizing deep understanding and wide knowledge coverage, and a robot training course material system which can automatically generate individualization and rich content and putted them into effect, based on leading AIGC technologies and ChatDoc products such as “AInnoGC” with functions of complex natural language handling, advanced data analysing and deep reinforcement learning. These tools greatly improve the quality and efficiency of teaching, adjust the content of teaching materials in real time according to the feedback of students, promote personalized learning and skill developing and effectively facilitate the talent training of the robotics industry in Chongqing. It is also a respond to the national policies on new industrialization, improving the production quality and developing a quality workforce, aims to solve the problem of skilled talents shortage, provides a firm talent support for the transformation and upgrading of the manufacturing industry and promotes the continuous innovation and development of the industry.

In the financial industry, with the rapid advancement of the construction of the data element market, data asset management has entered a stage of rapid development. On the basis of continuing to optimize and innovate the solutions of AInnovation intelligent computing center, we further enhance the product research and development work on data intelligence software such as data governance and control, data asset management, and data asset application development platform. We help financial industry customers to, in the face of multi-source and heterogeneous massive business data, clearly define data standards, improve data quality, classify and manage data assets hierarchically, and support various business departments to build intelligent application for different business needs based on unified data assets through rich data application development interfaces. At the same time, we actively explore the deep integration of LLM and generative AI technologies

with digital intelligence software, and give full play to the mutual promotion between algorithms and data. For example, combining AIInnoGC with data governance software helps data engineers generate the SQL code required for data acquisition and complete the basic data analytics work; in the data asset management software platform, based on the understanding of the enterprise data asset hierarchical management system and historical hierarchical data, the LLM automatically classifies and implements safety rating for massive data assets, greatly improving the efficiency and refinement of data asset management.

Part II: Future Outlook

Relying on China's strong efforts on promoting the high-quality development of the real economy, the new generation of information technology represented by AI has ushered in a period of rapid development. Industrial manufacturing constitutes an important part of the real economy. The 20th National Congress report proposes to promote a new type of industrialization and pick up our pace in building China into a manufacturing power as well as a digital country. In December 2023, eight authorities, including the Ministry of Industry and Information Technology (MIIT) jointly released *A Guideline on Accelerating the Transformation and Upgrading of Traditional Manufacturing Industries*, which calls for accelerating the empowerment of digital technology and comprehensively promoting intelligent manufacturing. In January 2024, seven authorities, including MIIT jointly issued *Implementation Opinions on Promoting the Innovative Development of Future Industries*, which focuses on promoting the development of future manufacturing, IT and other industries, and accurately identifying and cultivating high-potential future industries through AI, advanced computing and other technologies. The 2024 Government Work Report repropose "AI +", and vigorously promotes the construction of new industrialization and accelerates the development of new productive forces.

On the application side, the demand from enterprises for AI technology has also reached an all-time high. According to the IDC's report, China's top 500 companies are expected to spend more than 30 percent of their core IT spending on AI by 2026, striving to achieve a double-digit growth in product innovation and flow improvement. According to *the Report on the Application and Development of Industrial Large Language Model (LLM) Technology* issued by China Academy of Information and Communications Technology (CAICT), AI and LLM will accelerate and empower the new industrialization, and the size of industrial AI market will rapidly grow at a CAGR of 46% from 2022 to 2032. In 2032, the industrial AI market size will be valued at USD89.5 billion. The advent of AI LLM will greatly reduce the difficulty arising from technology application, and significantly improve the AI generalization capability, thus promoting the development of innovative applications and solutions. We believe that with the implementation of a gradually orderly LLM market, more intelligent and digital innovation scenarios will be created in industrial manufacturing driven by generative AI, bursting out a strong vitality.

In the AI1.0 era, relying on the MMOC artificial intelligence technology platform, we have accumulated rich experience in serving the manufacturing industry with AI technology. Going forward, in the AI2.0 era, we will continue to strengthen the MMOC platform and make greater efforts to develop AInnoGC industrial LLM technology platform, creating more application scenarios in industrial manufacturing through AI technology. Our business structure will also be further optimized and adjusted with the technology upgrading and based on the change of external demand, and further focus on and construct “industrial software, digital and intelligent software, industrial logistics, intelligent equipment, industrial sustainability” based on its existing segments, promoting the deep integration of AI and industrial manufacturing. As set out in the 2024 Government Work Report, China will provide stronger guidance and support on quality and standards to create more Chinese brands with global reach. Currently, “made by China” enters into international market with an unprecedented expansion pace and scale. Setting up overseas offices by participants in China’s manufacturing industry also becomes an inevitable trend of China’s economic development. In the future, we will respond to the business need of customer and market volatility and support China’s manufacturing industry to establish overseas offices. “1+N” expansion and “1+N” replication will be explored in the market abroad based on existing technology platform and solutions, to give assistance on expanding the capacity of upgrading manufacturing industry to cover the overseas market and become new driving force of enterprise growth.

Strengthening AI technology twin towers

With the rapid development of LLM such as ChatGPT, Sora and Claude, AI technology has entered a new stage of development. LLM is attributed to stronger multimodal learning and understanding ability, self-learning and adaptability, logical reasoning and problem-solving ability and the ability to simulate the physical world, suggesting that the AGI era is quickly approaching, further exerting a profound impact on several areas. In particular, for the industrial sector, we will see optimized production procedure, increased production efficiency, lower cost and advanced automation; for the financial sector, LLM will assist in conducting complex financial analysis, risk prediction and investment decisions, etc., accelerating the development and application of AI technology.

Going forward, the Company will be actively open to major opportunities brought by new technological changes, continue to strengthen the development and operation of AI “technology twin towers”, actively deploy next-generation applications and solutions for key industrial areas and key scenarios, and gradually build a new pattern of intelligent products in the AI2.0 stage.

In the direction of AIInnoGC, we will continue to improve the full-stack maturity of AIInnoGC, strive to make our technology take the lead and promote product innovation and implementation.

- ✧ **Improving the ChatX series of generative applications:** enhancing the business application ability, and continuing to quickly explore and make breakthroughs in new applications.
 - o ChatBI-generative enterprise private domain data analysis: improving the coverage of LLM empowering data analysis as well as the analysis efficiency.
 - o ChatDoc-generative enterprise private domain knowledge Q&A: enhancing the scale and content diversity of supporting documents, and optimizing the effect of knowledge Q&A, recommendation and traceability.
 - o ChatRobot-generative industrial robots scheduling: continuing to improve man-machine interactive experience, adding brain-computer control interfaces and optimizing task scheduling capabilities, especially cooperative scheduling among various AGVs, so as to promote deep combination between industrial robots and industrial LLM. Taking industrial LLM as sprit and industrial robots as body and with continuous optimization and perfection of industrial LLM as well as constant expansion of application scenarios of ChatRobot, industry regions will welcome a more efficient, intellectual and sustainable production way. Besides, combination of industrial LLM and industrial robots is expected to promote intellectual and flexible development of manufacturing industry. With continuous progress of technologies, industrial robots in future will obtain stronger self-adaptation and study capabilities through industrial LLM, and be able to conduct self-adjustment and optimization according to different production needs and environmental changes, as a result of which production lines of manufacturing industry will become more flexible and be able to adapt to various complicated and volatile production scenarios. There is a vast development prospect for combination of industrial LLM and industrial robots. We believe that, with continuous progress of embodied intelligent technology of large models and continuous expansion of application scenarios, industrial manufacture in future will become more intelligent, high-efficient and sustainable.
 - o ChatVision-generative enterprise private visual insight: based on LLM multimodal technology, continually strengthening the functions of visual analysis and visual insight to create a new generation of natural language interactive picture/video analysis applications.

o ChatCAD-generative aided industrial design: enhancing the LLM-generative industrial design capability as well as the output quality of mechanical design and electrical design, promoting the LLM application into the upstream of industrial production, helping reduce cost and increase efficiency in industrial design, and extending the life cycle of industrial design results.

✧ **Optimizing industrial LLM:** embracing the technological transformation of LLM, and further strengthening the capabilities of industrial LLM multimodality, Agent and AIGD (AI Generate Design) based on the actual needs arising from multiple fields and multiple scenarios, increasing technological innovation and accelerating the transformation of technological achievements.

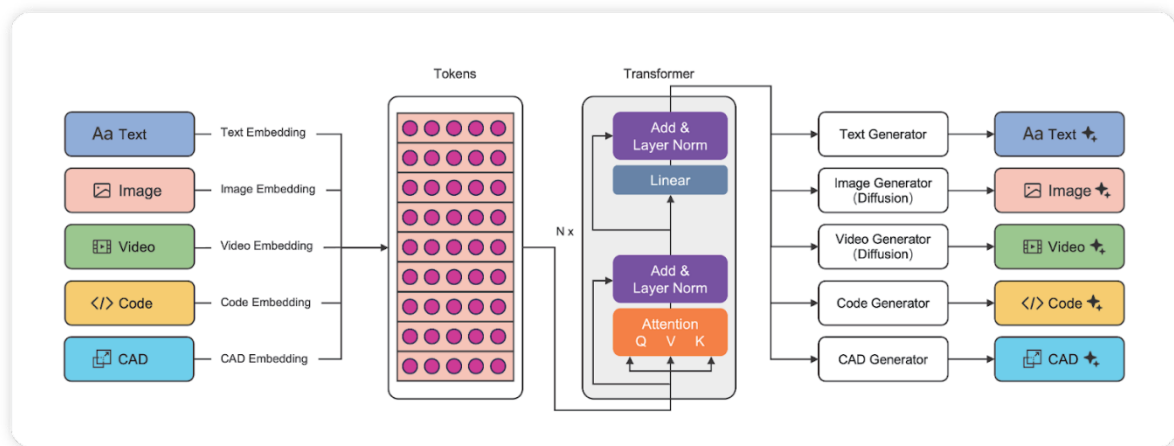


Figure (3) AIInnovation multimodal industrial LLM

✧ **Strengthening the LLM service engine:** continually implementing the update and reuse of LLM new technology middleware and tool chain, perfecting the built-in RAG and Agent capability engine, continuing to implement the platform engineering strategy, and empowering application development to reduce costs and increase efficiency.

In the direction of MMOC, we will give full play to the existing accumulated technology experience of visual intelligence, continue to improve product maturity, and support high-quality business development.

- ✧ **ManuVision/MatrixVision/Orion:** continually improving the all-process function of visual intelligence and actively promoting product innovation, integrating industrial LLM capabilities and creating differentiation and leadership.
- ✧ **Cloud:** continually consolidating and unifying the base, enhancing disaster preparedness and scalability, improving service stability, and rapidly developing and deploying ManuVision, MatrixVision, Orion, AInnoGC and various solutions.

Optimize AI products and solutions

In 2024, we are committed to further putting artificial intelligence technology to use, especially LLM technology, in order to achieve deep technological integration of products and solutions across all sub-sectors. We strive to expand the application range of intelligent products and solutions, and build a product matrix system to provide comprehensive product functions, while focusing on facilitating the integration and continuous accumulation of our customers' business data. This will accelerate the practical application of artificial intelligence technology and give full support for intelligent decision-making of enterprises. The Chat X serial products with creative and new features will be also introduced to strengthen our products and solutions, which includes exploring and analyzing large dataset by natural language understanding and Text-to-SQL technology, so as to provide profound insights and predictions for enhancing decision-making support capability. In addition, instant and accurate information in knowledge question and answer field we provided by virtue of the abilities of answering questions and summarizing model will significantly improve users' experience. The Text-to-CAD multimodality ability of large model technology can automatically make or optimize design drawings, which assists us to get a lot more design efficiency and innovation, speed up product development cycles and create competitive advantages. The all-round strategy of technology deepening and product innovation aims to promote the widespread application of AI technology in various industries, aided enterprises to realize the transformation and upgrading of digitization and intelligence and ensure that enterprises stay ahead in the fierce market competition.

In the field of Food & Beverage and New Material, we will adhere to the industrial software productization strategy with AI+MOM. In advantaged sub-sectors such as Food & Beverage, high-end new material and automobile equipment, a core MOM product portfolio, which is smart, platformization and verticalization, will be developed with standardized product matrix as the core as well as industrial internet solutions of vertical market as a pivot, to form new productive forces through cutting-edge technologies and advance the national strategy of new industrialization and digital economy. For specific, we uphold the product R&D strategy of “Platform+ Product+ Industrial package”, keep improving standardized level of products, and boost the high-quality growth of business by key products. At the same time, during the scenario exploration and commercial implement test of industrial software carried by large models at an earlier stage, we will concentrated on high-value scenarios and based on which to create industrial software, Copilot, that is a key product with large model capabilities embedded. For example, the construction capability of knowledge base of large models has been used to incorporate the knowledge base related to equipment operation and maintenance of the equipment management software, so that the software can immediately provide the operational and maintainance intelligent assistance to the user. The construction capability of knowledge base can also quickly copy and paste in other systems within the enterprise such as R&D management system, internal operating system and external marketing system, realizing knowledge base construction in all aspects of the enterprise. We will carry out in-depth cooperation with a number of lighthouse customers and pursue the “1+N/1xN” strategy, achieving the mature large-model embedded products successfully applied to such lighthouse customers and the replication of it to the customer from other industries, while exploring more large-model empowering scenarios.

In the field of iron and steel metallurgy, we will consolidate our unmanned market position of intelligent iron and steel interface and molten iron transportation. Our steel logistics of the whole plant will be deepened around the four major aspects - “raw materials entering the plant, production and delivery, in-plant transportation and ex-plant cost”, covering the logistics objects from “liquid” to “solid”. Developing intelligence of unloading raw material at terminals, automobile transportation within the plant, molten iron transportation and warehousing and delivery, laid a plan for the intelligentization of industrial logistics.

In the field of panel semiconductor and automotive equipment, for efficient and intelligent collaboration of cloud, edge and end, we will continue to promote the software and hardware integrated intelligent equipment driven by machine vision technology in all sub-sectors, and accelerate the seamless integration of all kinds of intelligent equipment and industrial software systems. For instance, as far as equipment implemented by various customers in the past, we have connected the test result of intelligent quality inspection equipment with the enterprise quality management system as well as equipment management system, achieving end-to-end quality management as well as precise and intelligent operation and maintenance of equipment, respectively. A much native support will be provided for data connection in products and solutions level, to further promote the replication of the above best practices on the customer side. In the meantime, we join hands with industrial top customers, actively seeking innovative landing scenario of large models technology in intelligent equipment. For example, the PLC code generation technology that has been applied in intellectual manufacturing training, the task organization and execution capability of industrial robots driven by AI-bot engine and multimodality model as well as the CAD drawing capability driven by large model, etc., will persist to enhance the intelligence level of various types of equipment and the capability of independently completing repetitive tasks, and improve the overall efficiency of the production line.

In the field of intellectual manufacturing training, focusing on industrial needs, we will design and develop more digital training courses closely aligned with the advancement of the manufacturing industry, and supportive training software modules and practical operating platforms. More generative AI technologies incubated by AInnoGC will be actively stepped up to embed in the platform of intellectual manufacturing training software, and promoted to all practical training centres. Through generative AI technology, we will incessantly improve the efficiency of the operation of the practical training centres, the teaching and research of teachers and the practical training of students. In addition, using the practical training centre as an experimental base for various types of generative AI technology implemented in the actual industrial production process, can not only test and enhance the accuracy and stability of the implementation of generative AI technology in the production line, but increase the understanding of generative AI technology for the manufacturing industry employees in future. It also accelerates the implementation of generative AI technology in the manufacturing industry and promotes the sustainable development of the industry.

In the financial industry, data that pave the way for the current economic environment, has become the fifth core factor of production with other four of land, labor, capital and technology, which is attached to great importance for the financial industry. As the country vigorously puts efforts into the construction of multi-tier capital market and financial institutions accelerate digital transformation on wealth management business, demands for artificial intelligence technology and data solutions increased day by day. We dedicate ourselves to giving a full use of our deep knowledge of artificial intelligence technology, in particular, leverage deep integration between AInnoGC and digital and intelligence software to boost innovative products and service. Our goal is by integrate automatic code generation, data asset grading, user profiling and other functions of products, collaborate advantages between data governance and asset management software, and industrial package customization, to raise the performance of financial industry clients in key business scenarios with respect to precision marketing, compliance risk control, business and financial management, regulatory submissions and others across the board, help them thereby activate and maximize the potential value of their data assets. We stick to the principles of “products with distinguishing features”, “business and scenarios highly matching” and “excellent execution”, continuously increase our R&D investment in AI solutions and data product, to steadily expand our industry coverage from banking and insurance to a broader asset management business such as securities, funds, futures, leases, trusts, further to manufacturing industry that data management is in relatively early stage but growing fast. In this way, we are strengthening our FinTech infrastructure, and also providing ongoing support and empowerment to our customers in the governance, control and digital transformation of their data assets in response to increasingly complex market demands and regulatory environments.

Management Discussion and Analysis

OVERVIEW

In the past six years since the establishment of AInnovation, we have been continuously committed to promoting the implementation of cutting-edge artificial intelligence technology in the real industry represented by the manufacturing industry, assisting in new industrialization and high-quality development, and promoting the integration and development of the digital economy and the real economy. As the market leader of “AI + Manufacturing” solutions in China, we adhered to the “focus” strategy to develop specialized and new backbone business and are pursuing long-term sustainable organic growth by strengthening our business in sub-sectors of industry (iron and steel metallurgy, panel and semiconductors, 3C high-tech, engineering and construction, automotive equipment, energy and power, Food & Beverage and New Material, and intelligent manufacturing training) and financial services industry. Thanks to the right corporate development strategy, deep technical product accumulation and profound insight into the industry scenario, we have achieved excellent results in terms of quantity and quality in the fiscal year 2023.

REVENUE

Our revenue increased by 12.4% from RMB1,557.6 million in the fiscal year ended 31 December 2022 to RMB1,751.0 million in the fiscal year ended 31 December 2023. Such increase was primarily due to the overall scale expansion and sustaining healthy development of the Company, which were mainly presented by (1) increase in revenue of manufacturing industry and financial services industry; and (2) increase in total number of customers and numbers of premium customers.

Manufacturing industry. Revenue from manufacturing industry increased by 24.1% from RMB948.2 million in the fiscal year ended 31 December 2022 to RMB1,176.4 million in the fiscal year ended 31 December 2023, accounting for 67.2% of total revenue.

Financial services industry. Revenue from financial services industry increased by 5.1% from RMB382.3 million in the fiscal year ended 31 December 2022 to RMB401.8 million in the fiscal year ended 31 December 2023, accounting for 22.9% of total revenue.

Our total number of customers increased from 292 in the fiscal year ended 31 December 2022 to 397 in the fiscal year ended 31 December 2023.

We define the customer with revenue contribution of RMB4.5 million or more in a fiscal year as a premium customer. The number of premium customers increased from 71 in the fiscal year ended 31 December 2022 to 81 in the fiscal year ended 31 December 2023. The total revenue contributed by the premium customers was RMB1,351.0 million and RMB1,427.7 million in 2022 and 2023 respectively.

COST OF SALES

Our cost of sales increased by 10.7% from RMB1,050.5 million in the fiscal year ended 31 December 2022 to RMB1,162.6 million in the fiscal year ended 31 December 2023. Such increase was primarily due to the cost growth from steady revenue growth.

Manufacturing industry. Cost of sales from manufacturing industry increased by 21.2% from RMB594.8 million in the fiscal year ended 31 December 2022 to RMB720.7 million in the fiscal year ended 31 December 2023, primarily caused by continuously focusing on the manufacturing industry and increasing the number of customers in the manufacturing industry.

Financial services industry. Cost of sales from financial services industry increased by 6.0% from RMB281.2 million in the fiscal year ended 31 December 2022 to RMB298.1 million in the fiscal year ended 31 December 2023, primarily caused by business expansion in financial services industry.

GROSS PROFIT AND GROSS MARGIN

As a result of foregoing, our overall gross profit increased by 16.1% from RMB507.1 million in the fiscal year ended 31 December 2022 to RMB588.5 million in the fiscal year ended 31 December 2023. In 2022 and 2023, our overall gross margin was 32.6% and 33.6% respectively, primarily due to (1) higher delivery efficiency and our optimization control on cost; (2) continuous optimization of business structure; (3) continuous improvement in economies of scales; (4) increase in pricing rights; and (5) more standardized products and solutions and more technical assets accumulated in our platforms.

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses increased by 31.8% from RMB162.7 million in the fiscal year ended 31 December 2022 to RMB214.5 million in the fiscal year ended 31 December 2023, primarily due to (1) strengthening of commercialization capabilities, continuous expansion of customer acquisition channels, and increased marketing efforts; (2) amortization of intangible asset arising from acquisition; and (3) increase in share-based payment expenses.

Selling and distribution expenses as a percentage of revenue increased from 10.4% in the fiscal year ended 31 December 2022 to 12.3% in the fiscal year ended 31 December 2023. Selling and distribution expenses (excluding share-based payments and amortization of intangible assets arising from acquisition) as a percentage of revenue was 6.7% in the fiscal year ended 31 December 2023, a decrease of 0.4% compared to 7.1% in the fiscal year ended 31 December 2022, primarily due to (1) constant and steady growth of our revenues; and (2) reducing and optimizing corporate operation costs and conducting effective control on selling and distribution expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses increased by 23.4% from RMB329.5 million in the fiscal year ended 31 December 2022 to RMB406.6 million in the fiscal year ended 31 December 2023, primarily due to an increase in share-based payment expenses.

General and administrative expenses as a percentage of revenue increased from 21.2% in the fiscal year ended 31 December 2022 to 23.2% in the fiscal year ended 31 December 2023. General and administrative expenses (excluding share-based payments and listing expenses) as a percentage of revenue was 11.5% in the fiscal year ended 31 December 2023, a decrease of 0.7% from 12.2% in the fiscal year ended 31 December 2022, primarily due to (1) constant and steady growth of our revenues; and (2) reducing and optimizing corporate operation costs and conducting effective control on general and administrative expenses.

RESEARCH AND DEVELOPMENT EXPENSES

Our research and development expenses increased by 8.0% from RMB416.3 million in the fiscal year ended 31 December 2022 to RMB449.8 million in the fiscal year ended 31 December 2023, primarily due to an increase in overall research and development investments brought by business expansion.

Research and development expenses as a percentage of revenue decreased from 26.7% in the fiscal year ended 31 December 2022 to 25.7% in the fiscal year ended 31 December 2023. Research and development expenses (excluding share-based payments and amortization of intangible assets arising from acquisition) as a percentage of revenue was 24.3% in the fiscal year ended 31 December 2023, a decrease of 1.0% from 25.3% in the fiscal year ended 31 December 2022, primarily due to (1) constant and steady growth of our revenues; and (2) lower costs and boosted efficiency appropriately in line with market environment.

NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Our net impairment loss on financial assets in the fiscal year ended 31 December 2023 was RMB86.8 million, compared to a net impairment loss of RMB37.0 million in the fiscal year ended 31 December 2022, primarily due to our prudent policies on the impairment provision of trade and other receivables during the Reporting Period.

OTHER INCOME

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

Our other income increased from RMB56.0 million in the fiscal year ended 31 December 2022 to RMB57.4 million in the fiscal year ended 31 December 2023, primarily due to more government grants we obtained.

OTHER LOSSES, NET

Our other losses, net primarily consist of: (1) foreign exchange losses/gains; and (2) changes in the fair value of financial assets and liabilities at fair value through profit or loss.

In the fiscal year ended 31 December 2023, we had a net other loss of RMB87.8 million compared to RMB9.2 million in the fiscal year ended 31 December 2022, primarily due to the changes in the fair value of financial assets and liabilities at fair value through profit or loss.

OPERATING LOSS

As a result of the foregoing, our operating loss increased by 52.9% from RMB392.3 million in the fiscal year ended 31 December 2022 to RMB600.0 million in the fiscal year ended 31 December 2023, primarily due to an increase in share-based payment expenses.

FINANCE INCOME

Our financial income decreased from RMB38.7 million in the fiscal year ended 31 December 2022 to RMB29.1 million in the fiscal year ended 31 December 2023, primarily due to a decrease in interest income from bank deposits.

FINANCE COSTS

Our finance costs are primarily comprised of (1) interest expenses on lease liabilities; (2) interest expenses on bank borrowings; and (3) interest expenses on convertible bond.

Our finance costs increased from RMB8.1 million in the fiscal year ended 31 December 2022 to RMB8.6 million in the fiscal year ended 31 December 2023, primarily due to an increase in interest expenses on bank borrowings.

LOSS FOR THE YEAR

As a result of the foregoing, our loss for the year increased by 57.9% from a loss of RMB361.2 million in the fiscal year ended 31 December 2022 to RMB570.3 million in the fiscal year ended 31 December 2023, primarily due to an increase in share-based payment expenses.

NON-IFRS MEASURES

Adjusted Net Loss

We define adjusted net loss as the net loss for the year adjusted by adding back share-based payment expenses, listing expenses, amortization of intangible assets arising from acquisition and changes in fair value of financial assets/liabilities at fair value through profit or loss. The changes in fair value of financial assets/liabilities at fair value through profit or loss mainly include fair value changes of fund investments, other financial investments, contingent considerations and convertible bond.

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

	Year ended 31 December	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Reconciliation of net loss to adjusted net loss:		
Loss for the year	(361,160)	(570,272)
Add:		
Share-based payment expenses	173,294	290,271
Listing expenses	26,457	—
Amortization of intangible assets arising from acquisition	14,292	36,135
Changes in fair value of financial assets/liabilities at fair value through profit or loss	8,716	89,683
Adjusted net loss (Unaudited)	<u>(138,401)</u>	<u>(154,183)</u>

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

As at 31 December 2023, cash and cash equivalents of the Group was approximately RMB1,344.6 million, compared to approximately RMB1,642.7 million as at 31 December 2022. The change was mainly from the cash inflow from placing new shares and cash outflow from investing and operating activities. Most of the cash and cash equivalents of the Group were denominated in RMB.

Gearing Ratio

The Group monitors capital on basis of the gearing ratio, which is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including related party borrowing), convertible bond and lease liabilities less cash and cash equivalents. As of 31 December 2023, the Group had a net cash position and the gearing ratio was not applicable.

MATERIAL ACQUISITIONS AND DISPOSALS

Transaction in relation to the Acquisition of 51% Equity Interest in Shanghai Compass Information Technology Co., Ltd. (“Shanghai Compass”)

On 16 May 2023, RewinCloud (Chongqing) Technology Co., Ltd. (“**RewinCloud**”, a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with two independent third parties, pursuant to which RewinCloud has conditionally acquired a total of 51% of the equity interests in Shanghai Compass at a total consideration of RMB229.5 million (“**Shanghai Compass Acquisition**”). Immediately after the completion of the Shanghai Compass Acquisition, Shanghai Compass has become an indirect subsidiary of the Company. Shanghai Compass is a specialized company that provides products and services related to data governance and data middle platform nationwide. As none of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the Shanghai Compass Acquisition exceeds 5%, the Shanghai Compass Acquisition does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

Save as disclosed above, for the year ended 31 December 2023, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Disclosure Made pursuant to Rule 14.36B of the Listing Rules

References are made to the announcement of the Company dated 20 May 2022 in relation to the acquisition of 51% equity interest in two target companies, and to the sections headed “Material Acquisitions and Disposals” of the annual report for the year ended 31 December 2022 issued by the Company on 19 April 2023 and the interim report for the six months ended 30 June 2023 issued by the Company on 22 September 2023.

The Company entered into the Share Transfer Agreement (“**Share Transfer Agreement I**”) with three Vendors (“**Vendors I**”) on 20 May 2022. Pursuant to the Share Transfer Agreement I, the Company has agreed to conditionally purchase, and Vendors I have agreed to conditionally sell, an aggregate of 51% equity interest in AInnovation EHigher (Shanghai) Intelligence Technology Co., Ltd. (浩亞奇智(上海)智能科技股份有限公司) (“**Target Company I**”) at the total consideration of RMB153.0 million. The Company entered into the Share Transfer Agreement (“**Share Transfer Agreement II**”) with three Vendors (“**Vendors II**”) on 20 May 2022. Pursuant to the Share Transfer Agreement II, the Company has agreed to conditionally purchase, and Vendors II have agreed to conditionally sell, an aggregate of 51% equity interest in Qingdao Aolipu Qizhi Intelligent Industrial Technology Co., Ltd. (青島奧利普奇智智能工業技術有限公司) (“**Target Company II**”) at the total consideration of RMB122.4 million.

1. Performance commitment of Target Company I

As for Target Company I, all parties agreed that the years of 2022, 2023 and 2024 will be the performance commitment period (the “**Performance Commitment Period**”) of Vendors I, during which, except for the matters that shall be considered and approved by the board of directors, the board of supervisors and the shareholders’ meeting of Target Company I as required by the laws and rules, the articles of association of Target Company I and the transaction documents or the matters that shall be agreed in writing by the Company before being implemented, the major operation and management matters of Target Company I shall be the sole responsibility of Chen Hong, an existing shareholder of Target Company I. Chen Hong undertakes that the following performance indicators will be satisfied:

Item	Performance Commitment Indicator		
	2022 ¹	2023	2024
Fiscal Year			
Revenue (RMB0’000)	21,818	33,000	44,000
Sales gross margin ²	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Financial gross margin ³	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Net profit (excluding extraordinary gains and losses) ⁴ (RMB0’000)	<u>660</u>	<u>1,320</u>	<u>1,760</u>

Notes:

1. The performance indicators for 2022 refer to the performance indicators consolidated after the Company acquired Target Company I only.
2. Sales gross margin = (turnover – external procurement costs)/revenue.
3. Financial gross margin = (turnover – costs of revenue)/revenue.
4. Net profit (excluding extraordinary gains and losses) refers to the net profit after deducting the extraordinary gains and losses.

During the Performance Commitment Period, the Company shall calculate the Share Transfer Payment (each amount being referred to as “**Adjusted Share Transfer Price**”) to be paid in the year according to the fulfillment of the Performance Commitment Indicator, and pay it to each of Vendors I separately according to the following formula: Adjusted Share Transfer Payment = Share Transfer Payment before Adjustment × The performance achievement rate after taking into account the collection of payments.

According to the Company’s announcement dated 20 May 2022, 30 June of each year or the date on which the Vendors I make payment application (whichever is earlier) shall be the closing date for collection of payments for the previous year (the “**Collection Date**”). The Company shall calculate the performance achievement rate after taking into account the collection of payments based on the actual collection status before the Collection Date. As of the date of this announcement, the Company has not yet been able to calculate the performance achievement rate of year 2023 after taking into account the collection of payments as the agreed Collection Date of year 2023 is yet pending. Accordingly, the performance commitment of Target Company I for the year ended 31 December 2023 is still in progress and the Company will closely monitor the completion of the said performance commitment.

2. Performance commitment of Target Company II

As for Target Company II, all parties agreed that the years of 2022, 2023 and 2024 will be the performance commitment period (the “**Performance Commitment Period**”) of Vendors II, during which, except for the matters that shall be considered and approved by the shareholders’ meeting, the board of directors, the board of supervisors and supervisors of Target Company II as required by the laws and rules, the articles of association of Target Company II and the transaction documents or the matters that shall be agreed in writing by the Company before being implemented, the major operation and management matters of Target Company II shall be the sole responsibility of Li Weiguo, an existing shareholder of Target Company II. Li Weiguo undertakes that the following performance indicators will be satisfied:

Item	Performance Commitment Indicator		
	2022 ¹	2023	2024
Fiscal Year			
Revenue (RMB0'000)	8,000	15,000	22,500
Sales gross margin ²	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Financial gross margin ³	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company	Meeting the annual business guideline of the Company
Net profit (excluding extraordinary gains and losses) ⁴ (RMB0'000)	<u>600</u>	<u>1,100</u>	<u>2,300</u>

Notes:

1. The performance indicators for 2022 refer to the performance indicators consolidated after the Company acquired Target Company II only.
2. Sales gross margin = (turnover – external procurement costs)/revenue.
3. Financial gross margin = (turnover – costs of revenue)/revenue.
4. Net profit (excluding extraordinary gains and losses) refers to the net profit after deducting the extraordinary gains and losses.

During the Performance Commitment Period, the Company shall calculate the Share Transfer Payment (each amount being referred to as “**Adjusted Share Transfer Price**”) to be paid in the year according to the fulfillment of the Performance Commitment Indicator, and pay it to each of Vendors II separately according to the following formula: Adjusted Share Transfer Payment = Share Transfer Payment before Adjustment × The performance achievement rate after taking into account the collection of payments.

According to the Company's announcement dated 20 May 2022, 30 June of each year or the date on which the Vendors II make payment application (whichever is earlier) shall be the closing date for collection of payments for the previous year (the "**Collection Date**"). The Company shall calculate the performance achievement rate after taking into account the collection of payments based on the actual collection status before the Collection Date. As of the date of this announcement, the Company has not yet been able to calculate the performance achievement rate of year 2023 after taking into account the collection of payments as the agreed Collection Date of year 2023 is yet pending. Accordingly, the performance commitment of Target Company II for the year ended 31 December 2023 is still in progress and the Company will closely monitor the completion of the said performance commitment.

MATERIAL INVESTMENTS HELD/FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

As of 31 December 2023, save as disclosed in this announcement, we did not have material investments or future plans for other material investments or acquisition of capital assets.

FOREIGN EXCHANGE EXPOSURE

During the fiscal year ended 31 December 2023, the Group mainly operated in the PRC with most of the transactions settled in RMB. The functional currency of our Company and the subsidiaries is RMB. As of 31 December 2023, our balance of the cash and cash equivalents was mainly denominated in RMB. The Group manages its foreign exchange risk by closely monitoring the movement of the exchange rates and will consider hedging significant foreign currency exposure if necessary. As of 31 December 2023, our business is not exposed to any significant foreign exchange risk.

PLEDGE OF ASSETS

As at 31 December 2023, the Group had no material pledge of assets.

BORROWINGS

As at 31 December 2023, borrowings of the Group were RMB76.7 million (as at 31 December 2022: RMB57.6 million), mainly include short-term borrowings of acquired subsidiaries.

CONTINGENT LIABILITIES

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

SUBSEQUENT EVENT

There was no significant event subsequent to the end of the Reporting Period and up to the date of this announcement.

OTHER INFORMATION

Dividend

The Board does not recommend a final dividend for the year ended 31 December 2023.

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

During the Reporting Period and up to the date of this announcement, the Company repurchased a total of 833,700 H Shares (the “**Repurchased Shares**”) on the Stock Exchange for a total consideration of approximately HK\$18,174,581. Details of the Repurchased Shares are as follows.

Month of Repurchase	Number of Repurchased Shares	Price per share paid		Total Consideration (HK\$)
		Highest Price (HK\$)	Lowest Price (HK\$)	
2023				
January	23,400	25.30	25.25	591,915
April	810,300	22.75	16.32	17,582,666
Total	<u>833,700</u>			<u>18,174,581</u>

As at 22 May 2023, the Repurchased Shares have been cancelled by the Company and the balance of the issued shares of the Company was 565,050,738 shares as at 31 December 2023. The repurchase of the Shares as referred to in the circular of the Company dated 14 April 2022 was for the purpose of stabilizing the share price of the Company and safeguarding the value of the Company and the interests of the shareholders.

Save as disclosed in this announcement, neither the Company nor the Company's subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period and up to the date of this announcement.

Corporate Governance Practices

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

The Company has adopted the principles and code provisions of the Corporate Governance Code contained in Appendix C1 of the Listing Rules ("**CG Code**") as the basis of the Company's corporate governance practice. The Company is committed to the view that the Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Company has complied with all applicable code provisions set out in the CG Code during the Reporting Period.

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

Model Code for Securities Transactions by Directors, Supervisors and Employees

The Company has adopted the Model Code to regulate all dealings by Directors, Supervisors and relevant employees of securities in the Company and other matters covered by the Model Code.

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

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

Scope of Work of the Auditor

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

Audit Committee

The Audit Committee has reviewed the annual results of the Group for 2023 and the audited consolidated financial statements for the year ended 31 December 2023 which were prepared in accordance with the International Financial Reporting Standards.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ainnovation.com). The annual report of the Group in the fiscal year ended 31 December 2023 will be dispatched to the Company's shareholders and made available for review on the same websites in due course.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Revenue	4	1,751,045	1,557,643
Cost of sales	5	(1,162,560)	(1,050,565)
Gross profit		588,485	507,078
Selling and distribution expenses	5	(214,542)	(162,703)
General and administrative expenses	5	(406,624)	(329,531)
Research and development expenses	5	(449,796)	(416,309)
Net impairment losses on financial assets		(86,802)	(37,022)
Share of net losses of investments accounted for using the equity method		(342)	(575)
Other income	6	57,367	56,009
Other losses, net	7	(87,758)	(9,238)
Operating loss		(600,012)	(392,291)
Finance costs	8	(8,573)	(8,089)
Finance income	8	29,050	38,708
Loss before income tax		(579,535)	(361,672)
Income tax credit	9	9,263	512
Loss for the year		(570,272)	(361,160)
Other comprehensive (loss)/income, net of tax			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Currency translation difference		(53)	192
Other comprehensive (loss)/income for the year, net of tax		(53)	192
Total comprehensive loss for the year		(570,325)	(360,968)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)*FOR THE YEAR ENDED 31 DECEMBER 2023*

		Year ended 31 December	
	Note	2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Loss for the year attributable to:			
Owners of the Company		(582,337)	(363,042)
Non-controlling interests		12,065	1,882
Loss for the year		<u>(570,272)</u>	<u>(361,160)</u>
Total comprehensive loss for the year attributable to:			
Owners of the Company		(582,372)	(362,944)
Non-controlling interests		12,047	1,976
Total comprehensive loss for the year		<u>(570,325)</u>	<u>(360,968)</u>
Basic and diluted loss per share for loss attributable to the owners of the Company (in RMB)	11	<u>(1.05)</u>	<u>(0.66)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

		As at 31 December	
	Note	2023	2022
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		56,600	81,943
Right-of-use assets		65,594	75,089
Intangible assets	12	327,031	206,620
Goodwill	13	327,385	194,552
Investments accounted for using the equity method		—	342
Financial assets at fair value through other comprehensive income		9,000	—
Other non-current assets		10,290	24,767
		<u>795,900</u>	<u>583,313</u>
Total non-current assets			
Current assets			
Inventories		130,629	107,772
Trade and notes receivables	14	671,547	571,935
Prepayments and other receivables	15	218,904	191,517
Financial assets at fair value through other comprehensive income		3,203	5,310
Financial assets at fair value through profit or loss	16	103,826	156,020
Restricted cash		20,533	9,915
Cash and cash equivalents		1,344,615	1,642,665
		<u>2,493,257</u>	<u>2,685,134</u>
Total current assets			
Total assets			
		<u>3,289,157</u>	<u>3,268,447</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		565,051	559,305
Share premium		2,631,580	2,562,978
Less: Treasury share		(264,349)	(258,821)
Other reserves		949,292	671,882
Accumulated losses		(1,848,252)	(1,265,915)
		<u>2,033,322</u>	<u>2,269,429</u>
Non-controlling interests			
		<u>190,823</u>	<u>89,546</u>
Total equity			
		<u>2,224,145</u>	<u>2,358,975</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*AS AT 31 DECEMBER 2023*

		As at 31 December	
	Note	2023	2022
		<i>RMB'000</i>	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		56,667	70,153
Deferred income tax liabilities		40,677	27,322
Other non-current liabilities		6,636	15,523
Financial liabilities at fair value through profit or loss	19	95,565	73,166
Total non-current liabilities		<u>199,545</u>	<u>186,164</u>
Current liabilities			
Borrowings		76,651	57,590
Lease liabilities		23,069	19,958
Trade and notes payables	17	353,707	280,324
Contract liabilities		121,778	105,486
Other payables and accruals	18	210,808	182,523
Current income tax liabilities		664	3,056
Financial liabilities at fair value through profit or loss	19	78,790	74,371
Total current liabilities		<u>865,467</u>	<u>723,308</u>
Total liabilities		<u>1,065,012</u>	<u>909,472</u>
Total equity and liabilities		<u>3,289,157</u>	<u>3,268,447</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

1 General information of the Group

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

The Company and its subsidiaries (collectively, the "Group") conduct research and development of artificial intelligence technologies and provide artificial intelligence based software and hardware technology solutions services in the PRC.

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

These consolidated financial statements are presented in Renminbi ("RMB") unless otherwise stated.

2 Basis of preparation and changes in accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRS Accounting Standards and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities that are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the 2023 annual report.

2.2 Changes in accounting policies

New and 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 or make retrospective adjustments as a result of adopting these standards.

Standards and amendments	Key requirements	Effective for annual periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
IAS 12 (Amendments)	International tax reform – pillar two model rules	1 January 2023

New and amended standards not adopted by the Group

The followings are new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Key requirements	Effective for annual periods beginning on or after
IAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
IAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
IFRS 16 (Amendments)	Lease liability in sale and leaseback	1 January 2024
IFRS 7 and IAS 7 (Amendments)	Supplier finance arrangements	1 January 2024
IAS 21 (Amendments)	Lack of exchangeability	1 January 2025
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 Segment information

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

The revenue of the Group is primarily derived from artificial intelligence products and services. Therefore, the Group regards that there is only one segment which is used to make strategic decisions.

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

No individual customer contributed over 10% of the total revenue of the Group for the year ended 31 December 2023 and 2022.

4 Revenue

An analysis of revenue is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Point in time		
–Sales of products and solutions	1,586,403	1,458,327
Over time		
–Sales of products and solutions	45,955	63,902
–Services of data solutions	118,687	35,414
	<u>1,751,045</u>	<u>1,557,643</u>

5 Expenses by nature

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Materials costs	720,974	746,662
Subcontracting costs	665,509	528,950
Employee benefit expenses	576,983	469,322
Professional service and other consulting fees	42,435	32,555
Amortisation of intangible assets (Note 12)	37,636	19,341
Marketing expenses	37,004	18,324
Depreciation of property, plant and equipment	30,093	31,310
Depreciation of right-of-use assets	24,846	21,877
Travelling expenses	16,424	16,395
Rental and property management expenses	6,920	2,806
Recruiting and training expenses	6,878	1,467
Auditors' remuneration – audit services	5,350	4,500
– non-audit services	1,300	1,577
Listing expenses	—	26,457
Other expenses	61,170	37,565
	<u>2,233,522</u>	<u>1,959,108</u>

6 Other income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Government grants	<u>57,367</u>	<u>56,009</u>

Government grants provided to the Group mainly related to financial subsidy from the local governments in the PRC.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

7 Other losses, net

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Foreign exchange (losses)/gains	(5,273)	5,046
Gains/(losses) on disposal of property, plant and equipment and right-of-use assets	1,851	(334)
Fair value losses on financial assets and liabilities at FVTPL	(89,683)	(8,716)
Interests received on financial assets at FVTPL	3,847	632
Liquidated damages	—	(6,400)
Others	1,500	534
	<u>(87,758)</u>	<u>(9,238)</u>

8 Finance income/(costs)

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	<u>29,050</u>	<u>38,708</u>
Finance costs:		
Interest expenses on lease liabilities	(4,188)	(4,227)
Interest expenses on bank borrowings	(2,842)	(2,462)
Interest expenses on convertible bond	<u>(1,543)</u>	<u>(1,400)</u>
	<u>(8,573)</u>	<u>(8,089)</u>
Finance income, net	<u>20,477</u>	<u>30,619</u>

9 Income tax credit

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current tax on profits for the year	818	3,667
Deferred income tax	<u>(10,081)</u>	<u>(4,179)</u>
Income tax credit	<u><u>(9,263)</u></u>	<u><u>(512)</u></u>

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Loss before taxation	<u>(579,535)</u>	<u>(361,672)</u>
Tax calculated at tax rates applicable to profits of the respective subsidiaries	(144,884)	(90,418)
Preferential tax of certain subsidiaries	50,682	32,452
Expenses not deductible for tax purposes	43,139	27,182
Super deductions from research and development expenditures	(33,230)	(18,157)
Utilisation of the tax losses unrecognized deferred income tax previously	(2,077)	(2,644)
Temporary difference for which no deferred tax asset was recognized	13,738	14,837
Tax losses for which no deferred tax asset was recognized	<u>63,369</u>	<u>36,236</u>
Income tax credit	<u><u>(9,263)</u></u>	<u><u>(512)</u></u>

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

A number of subsidiaries of the Group obtained the status as High and New Technology Enterprises in 2023. According to the tax incentives of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years commencing from the years when these companies are recognized as High New Tech Enterprises.

A number of subsidiaries of the Group are entitled to the preferential policy of Small and Micro-sized enterprises, for which the applicable income tax rate is 5%.

The Group mainly operates within Mainland China. It is within the scope of the OECD Pillar Two model rules. As of the reporting date, there is no public announcement in Mainland China.

Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax exposure. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

In addition, since the Pillar Two legislation in the jurisdictions that the Group operates in was not enacted or substantively enacted as at the reporting date, and due to the uncertainty of the announcement of the legislation and the complexities in applying the legislation and calculating GloBE income, the Group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect.

10 Dividends

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

11 Loss per share

(a) Basic loss per share

The basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares (excluding treasury shares) issued during the year ended 31 December 2023 and 2022.

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Loss from continuing operation attributable to the owners of the Company	(582,337)	(363,042)
Weighted average number of ordinary shares in issue ('000)	556,283	550,722
Basic loss per share (RMB)	<u>(1.05)</u>	<u>(0.66)</u>

(b) Diluted loss per share

As the Group incurred losses for the year ended 31 December 2023 and 2022, the potential diluted ordinary shares related to treasury shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, the diluted loss per share for the year ended 31 December 2023 and 2022 are the same as basic loss per share of the respective year.

12 Intangible assets

	Customer			Total
	Software	Relationships	Technology	
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2023				
Opening net book amount	4,612	167,489	34,519	206,620
Additions	206	—	—	206
Acquisition of a subsidiary	841	132,000	25,000	157,841
Amortisation charge (Note 5)	(1,501)	(25,432)	(10,703)	(37,636)
Net book amount	<u>4,158</u>	<u>274,057</u>	<u>48,816</u>	<u>327,031</u>
As at 31 December 2023				
Cost	11,839	309,400	63,900	385,139
Accumulated amortisation	(7,681)	(35,343)	(15,084)	(58,108)
Net book amount	<u>4,158</u>	<u>274,057</u>	<u>48,816</u>	<u>327,031</u>
Year ended 31 December 2022				
Opening net book amount	5,672	—	—	5,672
Additions	1,786	—	—	1,786
Acquisition of subsidiaries	2,203	177,400	38,900	218,503
Amortisation charge (Note 5)	(5,049)	(9,911)	(4,381)	(19,341)
Net book amount	<u>4,612</u>	<u>167,489</u>	<u>34,519</u>	<u>206,620</u>
As at 31 December 2022				
Cost	10,792	177,400	38,900	227,092
Accumulated amortisation	(6,180)	(9,911)	(4,381)	(20,472)
Net book amount	<u>4,612</u>	<u>167,489</u>	<u>34,519</u>	<u>206,620</u>

Amortisation of the intangible assets has been recognized as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
General and administrative expenses	1,167	669
Research and development expenses	11,037	8,761
Selling and distribution expenses	25,432	9,911
	<u>37,636</u>	<u>19,341</u>

(i) Amortisation methods and periods

The group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Software	3-5 years
Customer relationship	10 years
Technology	5 years

13 Goodwill

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cost additions on business combination	<u>327,385</u>	<u>194,552</u>

The goodwill arose from the acquisition of Shanghai Compass Information Technology Co., Ltd. (“Shanghai Compass”) with the amount of goodwill of RMB132,833,000 on 31 May 2023, and arose from the following acquisitions during the year ended 31 December 2022: 1) the acquisition of AInnovation EHigher (Shanghai) Intelligence Technology Co., Ltd. (formerly known as “Shanghai Higher Mechanical & Electrical Co., Ltd.”) and its subsidiaries (“Shanghai EHigher”) on 31 May 2022; 2) the acquisition of Qingdao Aolipu Qizhi Intelligent Industrial Technology Co., Ltd. and its subsidiaries (“Qingdao Aolipu Qizhi”) on 31 May 2022; and 3) the acquisition of Shenzhen AInnovation Eye Technology Co., Ltd. (formerly known as “Huiyan Automation Technology (Shenzhen) Co., Ltd.”) (“Shenzhen Huiyan”) on 31 October 2022. The amount of goodwill resulting from these acquisitions in 2022 were RMB96,377,000, RMB88,529,000 and RMB9,646,000, respectively. Shanghai Compass is mainly engaged in computer information technology consulting, big data analysis, and business intelligence solutions in the PRC. Shanghai EHigher is mainly engaged in developing and delivering AI-based products and solutions for the manufacture industries in the PRC. Qingdao Aolipu Qizhi mainly provides integrated solutions for intelligent industrial automation systems in area of intelligent manufacturing in the PRC. Shenzhen Huiyan is a system integrator providing hardware components development, agency services and softwares for manufacturing businesses in the PRC.

Impairment tests for CGUs containing goodwill

The Group carries out annual impairment test on goodwill by comparing the recoverable amounts of CGUs to the carrying amounts. Goodwill arising from the acquisition of Shanghai EHigher, Qingdao Aolipu Qizhi, Shenzhen Huiyan and Shanghai Compass was monitored separately and assessed as separate CGUs for the purpose of impairment testing.

The recoverable amounts of these CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a five-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for major value-in-use calculations as at 31 December 2023 and 2022 were as follows:

	Shanghai EHigher	Qingdao Aolipu Qizhi	Shanghai Compass
2023			
Revenue (% annual growth rate)	2.2%-21.6%	2.2%-44.4%	2.2%-32.8%
Budgeted gross margin (%)	32.0%	45.0%-49.6%	46.5%-47.6%
Pre-tax discount rate (%)	15.4%	15.4%	15.4%
2022			
Revenue (% annual growth rate)	7.9%-36.8%	7.7%-63.5%	—
Budgeted gross margin (%)	28.6%-31.0%	47.0%-48.2%	—
Pre-tax discount rate (%)	15.4%	15.4%	—

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determine values
Revenue	Annual growth rate over the five-year forecast period; based on current industry trends, past performance and management's expectations for the future.
Budgeted gross margin	Historic performance and management's expectations for the future.
Pre-tax discount rate	Specific risks relating to the relevant segments and the country in which they operate.

There was no impairment required from the review on goodwill. The directors and management have considered and assessed reasonably possible changes for key assumptions. Based on the headroom of the impairment assessments, the directors and management believed that any reasonably possible change in any of the key assumptions would not result in an impairment provision of goodwill.

14 Trade and notes receivables

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Accounts receivable	789,512	627,302
Less: Provision for impairment	(169,063)	(88,432)
	620,449	538,870
Notes receivables	51,098	33,065
	671,547	571,935

As at 31 December 2023 and 2022, notes receivables were bank and commercial notes receivables aged less than six months.

The majority of the Group's receivables are with credit term mostly from 30 days to 180 days. At 31 December 2023 and 2022, the aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Accounts receivable		
Less than 3 months	323,794	367,696
3 months to 6 months	101,583	92,954
6 months to 12 months	202,717	94,906
1 year to 2 years	143,794	45,865
2 years to 3 years	17,624	25,881
	<u>789,512</u>	<u>627,302</u>

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

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	837,156	648,583
USD	3,370	11,127
EUR	84	657
	<u>840,610</u>	<u>660,367</u>

15 Prepayments and other receivables

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Other receivables		
– Deposits	12,658	8,371
– Staff advances	2,011	1,749
– Deposits for share repurchase	515	16,296
– Other receivables from related parties	—	578
– Others	15,661	11,546
	<u>30,845</u>	<u>38,540</u>
Other receivables, gross	30,845	38,540
Provision for impairment	(12,238)	(2,305)
	<u>18,607</u>	<u>36,235</u>
Other receivables, net	18,607	36,235
Prepayments to vendors	48,460	109,322
Recoverable value-added tax (“VAT”)	151,142	45,424
Recoverable income tax	695	536
	<u>218,904</u>	<u>191,517</u>

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	30,845	22,244
HKD	—	16,296
	<u>30,845</u>	<u>38,540</u>

The carrying amounts of other receivables approximate their fair values as at the balance sheet dates.

16 Financial assets at fair value through profit or loss

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Investment fund (a)	48,481	69,260
Wealth management products (b)	14,500	14,125
Listed equity securities (c)	2,438	2,920
Other financial investment instrument (d)	38,407	69,715
	<u>103,826</u>	<u>156,020</u>

- (a) In April 2022, the Company made investment in a private equity fund, with amount of RMB73,150,000, and the Company made additional subscription funds with amount of RMB10,000,000 and RMB8,000,000 respectively in October and December 2023. The private equity fund represented assets measured at fair value, and the fair value was determined using valuation model for which not all inputs are observable and was therefore within level 3 of the fair value hierarchy. Changes in fair value of the private equity fund was recognized in other losses, net.
- (b) The wealth management products represented the financial products issued by public monetary funds. The public monetary fund mainly invests in financial instruments permitted by laws and regulations, including cash, short-term bank deposits, bond repurchase, bank bills and other money market instruments with good liquidity.
- (c) The listed equity securities are listed stocks purchased in the public secondary market. The fair values of the listed securities were determined based on the closing price quoted in active markets.
- (d) In June 2022, the Company invested about RMB 71,890,000 to purchase a total return swaps financial product, swapped out fixed interest, and exchanged in the income or loss of the equivalent shares of a listed stock. The Company made additional subscription funds with amount of RMB5,000,000 in October 2023. The product was accounted for assets measured at fair value, and the fair value was determined using the observable inputs, and was therefore within level 2 of the fair value hierarchy.

17 Trade and notes payables

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Accounts payable	317,711	275,700
Notes payable	35,996	4,624
	<u>353,707</u>	<u>280,324</u>

As at 31 December 2023 and 2022, the aging analyses of the trade and notes payables based on transaction date were as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 3 months	211,437	206,126
Between 3 months and 6 months	66,653	25,872
Between 6 months and 1 year	31,963	24,005
Between 1 year and 2 years	33,550	18,846
Between 2 years and 3 years	10,104	5,475
	<u>353,707</u>	<u>280,324</u>

The carrying amounts of trade and notes payables approximate their fair values as at the balance sheet dates.

18 Other payables and accruals

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Payroll and welfare payables	60,951	80,917
Accruals and other payables	55,108	51,164
Repurchase obligation of the employee equity incentive scheme	41,326	—
Other taxes payable	27,427	18,723
Other payables to related parties	15,099	20,148
Interest payable on convertible bond	9,276	7,733
Warranty	1,621	3,838
	<u>210,808</u>	<u>182,523</u>

The carrying amounts of other payables and accruals approximate their fair values as at the balance sheet dates.

19 Financial liabilities at fair value through profit or loss

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contingent considerations (a)	174,355	117,606
Convertible bond (b)	—	29,931
	<u>174,355</u>	<u>147,537</u>

- (a) In May 2022 and 2023, the Company entered into transfer agreements with the then shareholders of three companies to acquire an aggregate 51% interests in each of the three companies with fixed considerations and contingent considerations which would be adjusted according to the performance commitments of the three companies. The contingent considerations represented liabilities measured at fair value, and the fair values were determined using valuation model for which not all inputs are observable and are therefore within level 3 of the fair value hierarchy.

The movements of contingent considerations for the year ended 31 December 2022 and 2023 are set out below:

	Contingent considerations RMB'000
Opening balance as at 1 January 2022	—
Acquisition of subsidiaries	109,416
Change in fair value	<u>8,190</u>
Closing balance as at 31 December 2022	117,606
Acquisition of a subsidiary	86,743
Payments of contingent considerations	(45,017)
Change in fair value	<u>15,023</u>
Closing Balance as at 31 December 2023	<u><u>174,355</u></u>

- (b) Jiangsu Epsa Automation Technology Co., Ltd. (“Jiangsu Epsa”), a subsidiary acquired by the Group in May 2022, entered into an investment agreement with an investor for the issuance of convertible bond with principal amount of RMB30,000,000 in October 2019. According to the terms of the investment agreement, during the 48 months since the date of issuance, at the investor’s option, the conversion right would be exercisable on the investor’s demand in exchange for shares of Jiangsu Epsa, and the investor has the right to request Jiangsu Epsa to redeem the convertible bond or shares if converted, with 100% of its issue price plus 8% interest rate per annum.

The conversion price was based on negotiation between Jiangsu Epsa and the investor. The Group designated the entire hybrid contract at fair value through profit or loss and recognized financial liabilities of RMB29,931,000 as at 31 December 2022. The convertible bond had been repaid by the year ended 31 December 2023.

DEFINITIONS

“Audit Committee”	audit committee of the Board
“Board” or “Board of Directors”	the board of directors of our Company
“China” or “PRC”	the People’s Republic of China, but for the purpose of this announcement only, do not apply to Hong Kong, the Special Administrative Region of Macau and Taiwan
“Company” or “our Company” or “the Company” or “AIInnovation”	Qingdao AIInnovation Technology Group Co., Ltd (青島創新奇智科技集團股份有限公司), which was established with limited liabilities under the laws of the PRC on 6 February 2018 and converted into a joint stock limited company on 19 May 2021, whose H shares are listed on the Main Board of Stock Exchange on 27 January 2022 (stock code: 2121)
“Director(s)”	the director(s) of our Company
“Group” or “our Group” or “we” or “us”	our Company and our subsidiaries
“H Share(s)”	overseas-listed shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are to be traded in Hong Kong dollars and are listed and traded on the Stock Exchange
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuer contained in Appendix C3 to the Listing Rules
“RMB” or “Renminbi”	the lawful currency of the PRC
“Share(s)”	H share(s)
“Shareholder(s)”	holder(s) of the Share
“Supervisor(s)”	the supervisor(s) of our Company
“%”	percent

By Order of the Board

QINGDAO AINNOVATION TECHNOLOGY GROUP CO., LTD *

青島創新奇智科技集團股份有限公司

Xu Hui

Executive Director and Chief Executive Officer

Hong Kong, 28 March 2024

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

* *For identification purposes only*