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## INDUSTRY OVERVIEW

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*The information presented in this section, including certain facts, statistics and data, is derived from the market research report prepared by CIC, which was commissioned by us, and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information, and we have taken reasonable care in extracting and reproducing such information. The information derived from official government publications has not been independently verified by our Company, the Joint Sponsors, any of our or their respective directors, officers or representatives or any other person involved in the [REDACTED] and no representation is given as to its accuracy.*

### OVERVIEW OF THE SMART VEHICLE MARKET

Technological advancements are reshaping the automotive industry. The robust development in algorithms, software, and processing hardware is accelerating the adoption of assisted and autonomous driving solutions in smart vehicles. These innovations are revolutionizing the way people travel by offering enhanced safety, efficiency and overall experience.

#### **Definition of Smart Vehicle: A New Generation of Vehicle Powered by Technologies**

Smart vehicles represent a new generation of vehicles that can perceive their own status, understand their surrounding environment, make prompt decisions and react in due time.

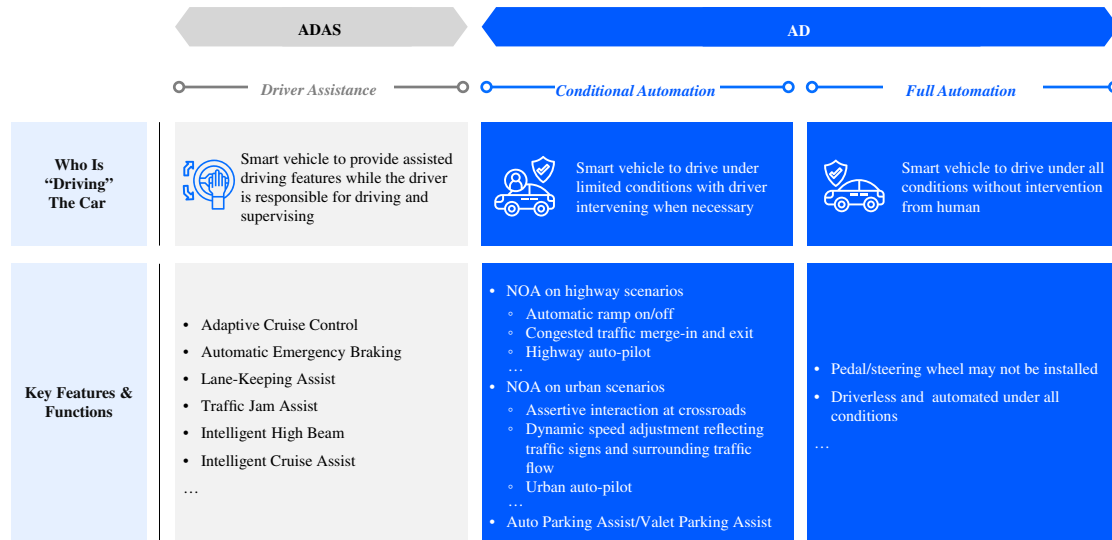
Smart vehicles adopt driving automation technologies that encompass capabilities of perception, prediction, path-planning and decision-making to improve road safety and enhance experience for both drivers and passengers.

#### **Levels of Driving Automation: The Technological Development of ADAS to AD is Expected to Lead the Smart Vehicle Evolution**

There are mainly two categories of driving automation: ADAS and AD.

- **ADAS, or Advanced Driver Assistance System**, refers to technologies and features that assist the human driver in various driving tasks, such as lane departure warning, lane centering, adaptive cruise control, automatic emergency braking and more. ADAS is designed to provide assistance to the human driver and enhance safety, while the human driver needs to remain engaged at all times;
- **AD, or Autonomous Driving**, refers to technologies and features with higher levels of automation compared to ADAS, which ultimately aims to achieve full automation where the vehicle can operate without human intervention. In recent years, NOA feature has emerged to enable conditional automation, including suggesting and making lane changes, navigating interchanges and taking exits especially on highways. As AD technologies continue to advance from conditional automation to high automation and full automation, smart vehicles are expected to become capable of handling more complex urban driving scenarios and navigating through diverse and challenging road conditions.

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Source: CIC

In recent years, ADAS has been in mass production and rapidly becomes a standard feature in the latest vehicle models. According to CIC, the penetration rates of ADAS technologies in the global and China passenger vehicle markets were both over 50% in 2023.

Concurrently, there is ongoing progress towards more advanced AD solutions, thanks to the technological development, favorable government policies as well as increasing consumer enthusiasm for the driving automation features for safer and more efficient driving experiences. AD adoption is at the tipping point of even wider acceptance as the NOA feature marks a key milestone in the evolution towards full automation, which has been increasingly accepted by OEMs and consumers. Smart vehicles with NOA feature can maneuver through intricate road conditions with minimum human intervention, substantially minimizing effort required for driving. Major OEMs, particularly leading NEV manufacturers, have been emphasizing the NOA feature as one of the key selling points for their latest vehicle models. As a result, AD solutions that enable advanced features such as NOA are expected to benefit significantly and undergo substantial growth in the near future.

In the mid- to long-term, as AD technologies continue to iterate and evolve, together with favorable government policies, it is expected that higher-level AD solutions will be commercialized and increasingly adopted by mass-produced vehicles in the future. High-level AD solutions will reshape the way people travel, bringing transformational changes to the mobility industry. New business models such as Robotaxi operation are expected to emerge, generating significant market opportunities.

The number of smart vehicles on the road has grown rapidly on a global scale. Out of a total of 60.3 million new passenger vehicles sold worldwide in 2023, approximately 39.5 million were smart vehicles with driving automation functions installed, representing a penetration rate of 65.6%. The sales volume of smart vehicles is expected to further increase to 55.9 million and 81.5 million by 2026 and 2030, respectively, representing penetration rates of 80.3% and 96.7%. Moreover, AD solutions are expected to gradually become mainstream, accounting for over 60% of the driving automation solutions by 2030, according to CIC.

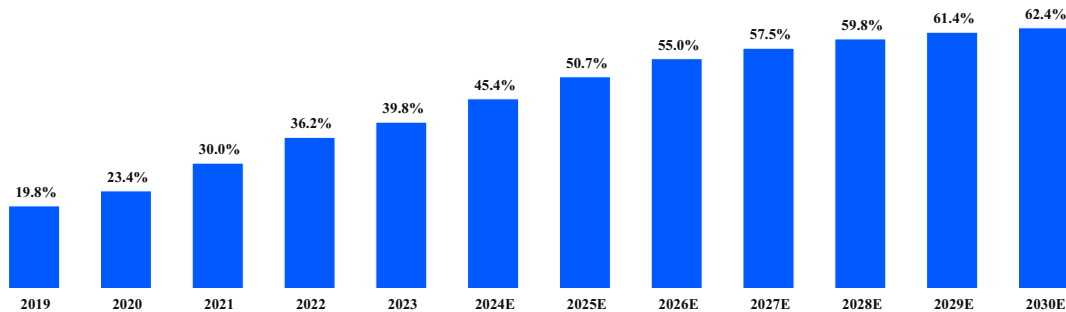


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The major players in the smart vehicle market in China include Chinese OEMs, foreign OEMs and sino-foreign joint ventures. Chinese OEMs have been gaining share in the smart vehicles market in China over the past few years. According to CIC, market share of Chinese OEMs increased from 19.8% in 2019 to 39.8% in 2023, and is expected to exceed 60% in 2029. Chinese OEMs’ advancements in technologies, particularly in ADAS and AD features have made these domestic brands highly competitive. In addition, improvements in local manufacturing capabilities and supply chain support have also led to rapid progress in product quality and cost-effectiveness for domestic brands.

Chinese OEMs are more inclined to select domestic suppliers in order to better cater to the demand and preference of the Chinese customers. In contrast, sino-foreign joint ventures and foreign OEMs typically make decisions on supplier selection at their global headquarters. As Chinese OEMs continue to gain market share in the smart vehicles market, the domestic suppliers for the automotive components and solutions are also expected to gain shares and achieve greater growth.

### Market Share of Chinese OEMs in China’s Smart Vehicle Market, 2019A-2030E (%)



Source: SALI data released by China Banking and Insurance Regulatory Commission, CPCA, CIC

### Key Drivers for the Smart Vehicle Market

- **Consumer acceptance and preference for autonomous features which bring enhanced safety and efficiency in driving:** According to CIC, a global survey conducted by a global tier-one supplier in 2022 indicated that 89% of respondents in China, 75% in Japan, 57% in the United States and 50% in Germany consider driving automation as a useful development in passenger vehicles. In China, it is estimated that the commuters in China’s top tier cities spend an average of over 80 minutes every day on the road. Smart vehicles with autonomous features can free up time and boost productivity for drivers and passengers during these long commutes. This value proposition is expected to further incentivize OEMs to increase the installation of AD features into their vehicle models in the future.

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- **Enhanced standards for driving safety:** According to CIC, research conducted across different countries in the past decade has concluded that over 90% of traffic accidents are caused by human errors. To reduce the human errors and save lives, governments and OEMs have been continuously pushing for adoption of new technologies to achieve higher safety standards. For example, smart collision avoidance features have been included in the rating standards of C-NCAP and E-NCAP. The adoption of more advanced driving automation technologies in smart vehicles is expected to further enhance driving safety.
- **Robust technological development to empower more advanced autonomous features with cost-efficiency:** Significant advancements have been made in driving automation technologies. The fundamental driving force is the development in processing capacity and efficiency that has underpinned the development of other related technologies, such as information transfer and storage, algorithms and a variety of more sophisticated software applications. As these technologies continue to iterate and become more advanced overtime, smart vehicles are able to support features that deliver greater safety, comfort and convenience for consumers, thus further accelerate smart vehicle penetration. On the other hand, ADAS and AD solutions are becoming more cost efficient with continued progress in technology development and product commercialization.
- **Ongoing investment and favorable policies:** The growing number of, and the ongoing investment into research and development of smart vehicle are conducive to both the technology development and the commercialization of driving automation solutions. Supportive government policies globally for testing and deployment of smart vehicles and related facilities have further accelerated market growth. Please refer to “— Key Trends for the Smart Vehicles Market in Major Economies” for more details on the government policies in global major economies.

### Key Trends for the Smart Vehicles Market in Major Economies

#### *China*

There are significant demands in China for driving automation solutions to enhance driving safety and mobility experiences. China is featured with notably high population density and traffic density in major cities. As of December 31, 2023, China’s 15 largest cities had an average population of over 10.0 million, and there were 94 cities nationwide with car ownership surpassing one million, according to CIC. Moreover, road network in China is becoming increasingly complex due to newly constructed tunnels and overpasses, creating additional challenges for the drivers to navigate through. Therefore, Chinese consumers have a high level of acceptance and a strong preference for autonomous functions. According to CIC, based on surveys conducted among consumers in 2022, driving automation functions rank as the second most important factor when they consider a NEV purchase, after cost-efficiency.

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In addition, Chinese government has also strongly supported the development of smart vehicles and driving automation technologies. In 2020, eleven departments from the central government jointly issued a policy paper for the development and innovation of smart vehicles, outlining a blueprint for supporting smart vehicle development over the next 30 years. In November 2023, four ministries in China jointly released a new pilot program for smart vehicles, greenlighting pilot open-road program for vehicles with high-level AD solutions and paving the way for the commercialization of advanced AD technologies. Thanks to the supportive policies, at least eight OEMs have obtained testing licenses for high-level autonomous driving as of January 31, 2024.

As a result, China is the world’s largest smart vehicles market, with sales volume of smart vehicles of 12.4 million in 2023. China also has the highest AD penetration rate in the world, with around 1.5 million passenger vehicle sales equipped with AD solutions in 2023.

### *Overseas*

Countries worldwide have also shown strong interest and made significant progress in the adoption of driving automation technologies. In the European market, car manufacturers and tier-one suppliers are collaborating with autonomous driving solution providers to collectively advance the application of driving automation technologies. In 2022, Germany introduced passenger vehicles with advanced automation technologies that require no human intervention in certain driving scenarios. In Japan, the conditional automation technologies were introduced in 2021 by Honda. In 2023, the Japanese government revealed plans to set up autonomous vehicle lanes on public roads in 2024, and if realized, the lanes would be the first for self-driving vehicles on a public road in Japan. In the United States, driving automation technologies have also received wide attention.

Favorable policies to promote the development of smart vehicles have been introduced globally. In Europe, the European Union has already made it mandatory for new vehicles to be equipped with automatic emergency braking (AEB) systems. At the same time, it is also enhancing the legal framework to support the application of more advanced AD technologies for conditional automation. In the United States, the U.S. Department of Transportation has issued guidelines and principles to support the development and deployment of autonomous vehicles, including *Automated Vehicles 4.0*, and the *Automated Vehicles Comprehensive Plan*. The favorable support of policies and regulations around the world is expected to continuously facilitate and accelerate the adoption of smart vehicles.

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### OVERVIEW OF THE ADAS AND AD SOLUTIONS MARKET

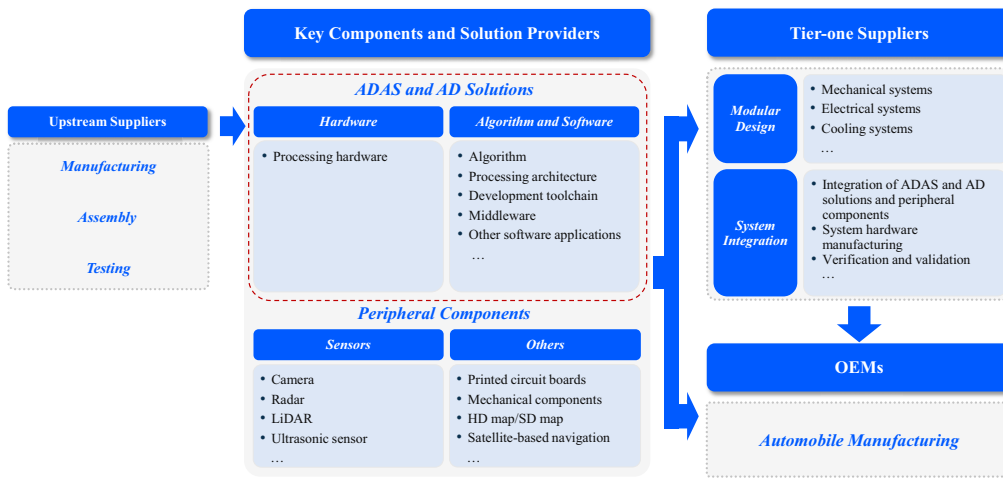
#### Definition and Value Chain of ADAS and AD Solutions: ADAS and AD Solutions Are Key Parts of the Value Chain and Act as Brains for the Smart Vehicles

In the traditional automotive industry, OEMs typically rely on an organized supply chain with multiple tiers of suppliers providing various components and integrated systems needed. This is also the case with the value chain of ADAS and AD solutions, with multiple levels of suppliers providing components and integration services to OEMs who then deploy the ADAS and AD solutions to the vehicle models. Due to stringent standards for safety and quality assurance, OEMs typically require a lengthy verification and testing process for supplier selection. As a result, layers of suppliers for OEMs are generally stable, and tend to be concentrated towards the top players who are more experienced and reputable within the industry.

The chart below illustrates the value chain of ADAS and AD solutions. The upstream suppliers mainly include hardware manufacturers who provide manufacturing, packaging and testing services. ADAS and AD solutions play a critical role in enabling a variety of driving automation functions and they effectively act as brains for the smart vehicles. The solutions consist of algorithms, software and processing hardware that support the development and deployment process. In addition to the ADAS and AD solutions, peripheral components like sensor and others also play important roles allowing the smart vehicles to perceive their surrounding environment. There are also mapping service companies that provide high-definition maps.

Tier-one suppliers are responsible for modular design and system integration, including the design of mechanical, electrical and cooling systems, as well as integrating the algorithm, software and processing hardware with peripheral components.

Recently, due to the high technical requirements for the design and development of driving automation functions, some OEMs also cooperate directly with key components and solution providers including ADAS and AD solution providers to develop customized driving automation functions, so as to achieve faster time-to-market and provide consumers with better driving experience.



Source: CIC

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### Significant Growth Potential for Global and China ADAS and AD Solutions Market

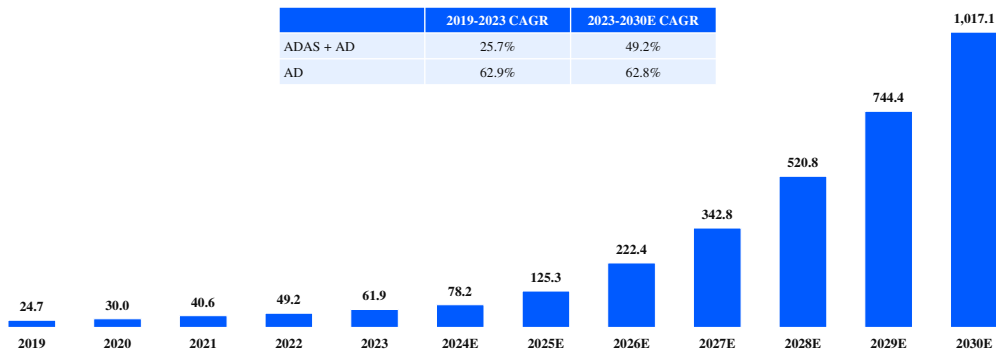
The market size of ADAS and AD solutions represents the value of both the hardware and software related to the solutions. It is expected to grow significantly, mainly driven by (1) the increasing sales of smart vehicles with ADAS and AD solutions as mentioned above; and (2) higher value created by AD solutions which demand larger processing capacity to support more advanced features under all driving scenarios, as well as to provide system redundancy.

According to CIC, the dollar content per vehicle for AD solutions is over ten times higher than that of ADAS solutions for a smart vehicle. Moreover, as the AD solutions continue to evolve and upgrade, the dollar content per vehicle for AD solutions is expected to further increase in the future. As a result, the market size of AD solutions is expected to experience significant growth at scale in the coming years.

According to CIC, it is estimated that the global market size of ADAS and AD solutions will grow from RMB61.9 billion in 2023 to RMB1,017.1 billion in 2030, representing a CAGR of 49.2%.

In China, the total market size of ADAS and AD solutions amounted to RMB24.5 billion in 2023. It is estimated that the total market size will grow at a CAGR of 49.4% in China to RMB407.0 billion in 2030.

#### Market Size for ADAS and AD Solutions, Global, 2019A-2030E (RMB Billion)



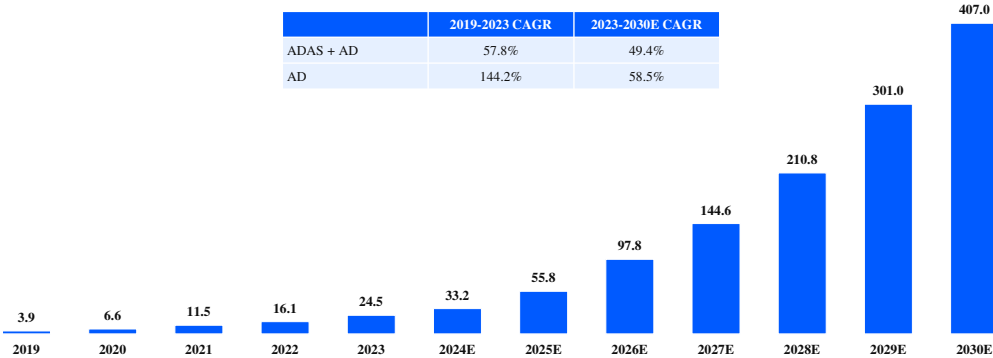
Source: CIC

Note: Not including peripheral components such as camera, radar and LiDAR.



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### Market Size for ADAS and AD Solutions, China, 2019A-2030E (RMB Billion)



Source: CIC

Note: Not including peripheral components such as camera, radar and LiDAR.

### Key Trends for the ADAS and AD Solutions Market

- Popularization of ADAS and AD solutions:** ADAS solutions with active safety features have been prevailing in mass production and becoming standard features in the latest vehicle models. According to CIC, the penetration rates of ADAS solutions in the global and China passenger vehicle markets were both over 50% in 2023. Concurrently, growing consumer demands and advancing technologies for safer and more efficient experiences are driving industry towards more advanced AD solutions. The penetration rate of ADAS and AD solutions is expected to increase to 96.7% by 2030 globally, among which AD solutions will account for over 60% of the total ADAS and AD solutions.
- Increasing demand for energy efficiency driven by centralized architecture and complex algorithm:** A more centralized electrical structure can improve hardware integration and co-optimization among components. This approach decreases the number of required control units, emphasizing the importance of processing solutions and their underlying software, which in turn require increased processing capacity and efficiency. On the other hand, the increasing complexity of algorithms for advanced driving scenarios also underscores the vital role of processing and energy efficiency. As smart vehicles are now managing a greater volume of real-time information from sensors such as cameras, radars, and LiDARs, ADAS and AD solutions must prioritize minimizing energy consumption while delivering optimal performance.

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- **Higher value created by AD solutions:** As mentioned above, AD solutions are expected to upgrade to provide more advanced features to tackle complex driving scenarios such as urban traffic and offer safer and more efficient driving experience. In addition, as AD solutions evolve into full automation, system redundancy is important to ensure the availability of backup solutions in case of system failure, so as to enhance safety performance. As a result, higher processing capacity, more advanced software and more system redundancy will lead to higher dollar content per vehicle for AD solutions.
- **Open platform for customization and partnership:** According to CIC, OEMs often prefer to work with open-platform solutions in order to maintain flexibility in product designs. Specifically, leveraging open and flexible solutions and services, OEMs are able to develop differentiated and customized products to conveniently and efficiently meet various needs from the consumers. In light of the continuous technological breakthroughs taking place across the value chain, a widely connected and collaborative ecosystem is conducive to the overall industry, where participants can easily collaborate.
- **Direct interaction and collaboration between ADAS and AD solutions providers and OEMs:** The automotive supply chain is also evolving, with the key participants along the value chain being more connected and interrelated. Instead of going through tier-one suppliers in the traditional value chain, OEMs nowadays start to collaborate directly with ADAS and AD solutions providers, as they see ADAS and AD functions becoming critical to their product offering. Through direct collaboration with ADAS and AD solutions providers, OEMs are able to develop customized driving automation functions more efficiently, achieving faster time-to-market and providing consumers with better driving experience. In addition, OEMs can obtain more comprehensive understanding of ADAS and AD solutions, which will help them maintain and iterate their products more easily.

### Competitive Landscape

The major market participants in the ADAS and AD solutions market include: (1) suppliers focusing on ADAS and AD solutions for automotive industry, who have deep technical expertise in driving automation, (2) general processing hardware suppliers that manufacture processing hardware for various industries, and (3) a small number of OEMs that develop in-house solutions.

The ADAS and AD solutions market in China is concentrated, with a few top suppliers holding the majority of the market share. Most of them are global suppliers with years of industry experience and extensive customer base.

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We are the only China-based company among the top five ADAS and AD solutions providers in China. We were the second-largest ADAS solutions provider to Chinese OEMs in China by solution installation volume in 2023 with a market share of 21.3%, according to CIC. We were also the fourth-largest ADAS and AD solutions provider in China by overall solution installation volume in 2023, with a market share of 9.3%.

### Top 5 ADAS Solutions Providers to Chinese OEMs in China, by Solution Installation Volume<sup>1</sup> in 2023

Ranking	Provider	ADAS Solution Installation Volume, 2023 <i>(Millions)</i>	Market Share, 2023 <i>(%)</i>	Market Share, 2022 <i>(%)</i>	Market Share Change (2023 vs. 2022)
1	Company A <sup>2</sup>	1.07	26.6%	26.1%	+0.6%
2	<b>Horizon Robotics</b>	<b>0.85</b>	<b>21.3%</b>	<b>3.7%</b>	<b>+17.6%</b>
3	Company B <sup>3</sup>	0.73	18.3%	39.1%	-20.9%
4	Company C <sup>4</sup>	0.70	17.4%	13.3%	+4.1%
5	Company D <sup>5</sup>	0.15	3.6%	5.2%	-1.5%

Source: China Banking and Insurance Regulatory Commission; CIC

### Top 5 ADAS and AD Solutions Providers in China, by Solution Installation Volume<sup>1</sup> in 2023<sup>6</sup>

Ranking	Provider	ADAS and AD Solution Installation Volume, 2023 <i>(Millions)</i>	Market Share, 2023 <i>(%)</i>	Market Share, 2022 <i>(%)</i>	Market Share Change (2023 vs. 2022)
1	Company A <sup>2</sup>	3.44	29.2%	29.5%	-0.2%
2	Company B <sup>3</sup>	2.82	24.0%	24.2%	-0.2%
3	Company C <sup>4</sup>	2.35	19.9%	21.4%	-1.4%
4	<b>Horizon Robotics</b>	<b>1.09</b>	<b>9.3%</b>	<b>2.2%</b>	<b>+7.0%</b>
5	Company D <sup>5</sup>	0.60	5.1%	7.6%	-2.5%

Source: China Banking and Insurance Regulatory Commission; CIC

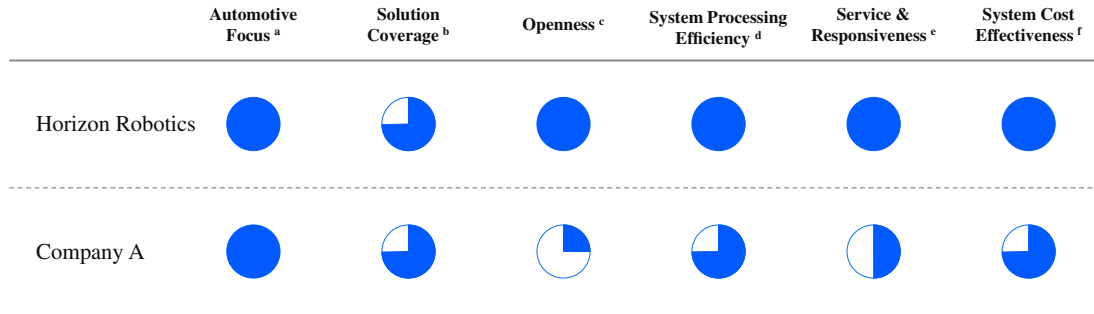
Notes:

- 1 ADAS and/or AD solution installation volume refers to the number of ADAS and/or AD solutions that are installed on the passenger vehicles and sold to end customers within a time period. The vehicle sales information is collected by CIC, based on SALI data released by China Banking and Insurance Regulatory Commission, as all new passenger vehicles sold in China are subject to SALI payment. According to CIC, the definition of industry ranking by solution installation volume as provided above is in line with common industry practice. However, the installation volume of ADAS and/or AD solutions may not always match the processing hardware deliveries reported by solution providers. This discrepancy can be attributed to several factors: (1) OEMs often maintain inventories of processing hardware based on their own management policies and strategies; (2) there may be a time delay between the delivery of processing hardware to OEMs and the actual sale of passenger vehicles to end customers; and (3) some passenger vehicles may be equipped with multiple units of processing hardware.
- 2 Founded in 1999 and headquartered in Israel, Company A is a provider of ADAS and AD technologies and solutions. It was listed on the Nasdaq in 2022.
- 3 Founded in 1984 and headquartered in the United States, Company B provides processing hardware and programmable logic devices to customers in automotive and general industrials sectors.
- 4 Founded in 2002 and headquartered in Japan, Company C is a solutions provider for a broad range of industries including automotive, industrial, electronics, and more. It was listed on the Tokyo Stock Exchange in 2003.
- 5 Founded in 1930 and headquartered in the United States, Company D is a hardware company that manufactures integrated circuits and processing hardware. It was listed on the NYSE in 1953 and was transferred to the Nasdaq in 2012.
- 6 Ranking and market share calculation excluding OEMs which produce ADAS and AD solutions in house.

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### Competitive Analysis of ADAS and AD Solutions Market

The below chart illustrates the competitive analysis between the Company and its key competitor on the various performance aspects.



Source: CIC

*Notes:*

- a. **Automotive Focus:** measured by the end-customer focus. Market players who are dedicated to automotive customers are generally able to deliver more tailored products and solutions for automotive use.
- b. **Solution Coverage:** measured by the range of products and services that the market player provides related to both ADAS and AD solutions.
- c. **Openness:** measured by the openness of the solutions architecture provided by the market player, including the flexibilities for third parties to develop and design customized solutions.
- d. **System Processing Efficiency:** measured by the amount of information such as images and frames that can be identified and processed within a period of time.
- e. **Service & Responsiveness:** measured by the customer service quality and response time to customers’ requests in China.
- f. **System Cost Effectiveness:** measured by the processing power per unit cost.

### Barriers to Entry and Key Success Factors

- **Stringent quality standards:** The ADAS and AD solutions, as the brain of a smart vehicle, are a critical component that needs to meet the highest standards of safety and quality assurance. Meeting these standards requires passing rigorous review and approval processes which often take years. Automotive-grade components need to be able to withstand harsh weather such as extreme temperatures from -40 to 150 degrees Celsius, environments from humid to dry and adverse road conditions including extremely bumpy roads. Such stringent quality standards cast high barriers for new entrants.

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- **Expertise in both software and hardware:** The development of processing hardware requires advanced engineering and years of dedicated research, which is difficult for new entrants to replicate or surpass in the short term. In addition, since algorithms are optimized under a certain set of specifications and criteria, and as each application on processing hardware is unique, solution providers taking a software-hardware co-optimization approach is better positioned to yield the best results. Therefore, new entrants would need to devote a significant amount of resources to both hardware and software development simultaneously. Lastly, since software upgrades are more frequent, being a software expert enables solution providers to have better visibility of an algorithm’s development trend. OEMs are inclined to partner with companies that have expertise in both software and hardware instead of one-dimensional players.
- **First mover advantage:** First movers in the industry have accumulated extensive industry experience and market know-how used to train and improve their algorithms as well as guide hardware design. OEMs and tier-one suppliers each have distinct preferences, design needs, and a thorough design, verification and testing process. Therefore, by establishing partnerships early on, first movers would become deeply involved in the product designs, enabling first-movers to shape the underlying specifications and thereby creating an entry barrier against potential competitors. Moreover, first movers have the opportunity to establish an open-sourced platform that allows OEMs and tier-one suppliers to develop customized products and solutions within their own ecosystem, resulting in high switching costs and customer stickiness. Lastly, first movers could benefit from economies of scale, thus offering cost-efficient solutions to customers.
- **Accumulation of industry know-how, local expertise and service capabilities:** Companies need to accumulate deep industry know-how to launch successful ADAS and AD solutions with the highest degree of performance and reliability. Companies that have achieved mass production enjoy significant competitive advantages, as they have access to valuable real-world insights that allow them to iterate and improve their products more efficiently. Achieving mass production requires significant financial resources, human capital and time. In addition, companies that have adjusted their products to challenging road conditions in countries such as China can easily deploy their products into other countries with less complex road conditions. Therefore, it is challenging for new entrants with limited industry know-how to compete with industry incumbents who have already accumulated in-depth knowledge.

## SOURCE OF THE INDUSTRY INFORMATION

CIC was commissioned to conduct research and analysis of, and produce a report on, the global and China’s ADAS and AD solution industry and related economic data at a fee of approximately US\$100,000. The commissioned report has been prepared by CIC independently without the influence from the Company or other interested parties. CIC offers industry consulting services, commercial due diligence and strategic consulting. With a consultant team actively tracking the latest market trends in various industries such as automotive, consumer

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goods and services, agriculture, chemicals, marketing and advertising, culture and entertainment, energy and industry, finance and services, healthcare, TMT and transportation, CIC possesses the most relevant and insightful market intelligence in these sectors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report. We have also referred to certain information in the “Summary,” “Risk Factors,” “Business” and “Financial Information” sections to provide a more comprehensive presentation of the industry in which we operate.

CIC employed both primary and secondary research methods using a variety of resources. Primary research included interviews with key industry experts and leading participants, while secondary research involved analyzing data from publicly available sources, such as the National Bureau of Statistics and General Administration of Customs of the PRC. The market projections in the CIC Report are based on the following key assumptions during the forecast period: (i) that the overall global social, economic, and political environment is expected to maintain a stable trend over the next decade; (ii) that related key industry drivers are likely to continue driving growth in global and China’s ADAS and AD solution industry during the forecast period; and (iii) that there is no extreme force majeure or set of industry regulations in which the market situation may be affected either dramatically or fundamentally.

Our Directors confirm that, to the best of their knowledge, after making reasonable inquiries, there is no material and adverse change in the market information since the date of the CIC Report, which may qualify, contradict or have an impact on the information in this section.