You should read the following discussion and analysis in conjunction with our consolidated financial statements and the accompanying notes included in the Accountant's Report set forth in Appendix I to this Document. Our consolidated financial statements have been prepared in accordance with IFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountant's Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. In evaluating our business, you should carefully consider all of the information provided in this Document.

For the purpose of this section, unless the context otherwise requires, references to 2021, 2022 and 2023 refer to our financial year ended December 31 of such year. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a leading provider of ADAS and AD solutions for passenger vehicles, empowered by our proprietary software and hardware technologies. Our solutions combine cutting-edge algorithms, purpose-built software and state-of-the-art processing hardware, providing the core technologies for assisted and autonomous driving that enhance the safety and experience of drivers and passengers. We are a key enabler for the smart vehicle transformation and commercialization with our integrated solutions deployed on mass scale. We are the first and have consistently been the largest Chinese company providing integrated ADAS and AD solutions in terms of annual installation volume since the mass deployment of our solutions in 2021, according to CIC. We have a large, global customer base of industry-leading OEMs and tier-one suppliers. Our business has achieved significant growth at scale over the past three years as we capitalize on the mega industry tailwind as the market leader.

Smart vehicle transformation is a mega trend that has been reshaping the estimated US$13.0 trillion global automotive, mobility and road freight industries in 2023. ADAS capabilities are increasingly common in cars nowadays, thanks to the rapid technology advancement and higher consumer demand in recent years. This is demonstrated by the ADAS penetration rates of over 50% in both global and Chinese markets in 2023, according to CIC. Meanwhile, industry participants continue to make ongoing, inexhaustible efforts to march towards broader adoption of AD with increasing level of automation. We believe the demand for driving automation solutions will continue to grow significantly in the years to come. According to CIC, the global ADAS and AD solutions market presents a RMB61.9 billion opportunity in 2023 and is expected to grow at a CAGR of 49.2% through 2030 to reach RMB1,017.1 billion.

However, a few core challenges need to be addressed to realize mass adoption of smart vehicles enabled by ADAS and AD. ADAS and AD systems are highly complex, requiring high processing capacity, high reliability, low latency and low energy consumption, and need to be produced at affordable costs. Therefore, ADAS and AD solutions require the co-design of software and hardware to achieve the necessary system-level performance and reliability of driving functions. Deployment of such solutions on vehicles also requires optimal energy efficiency while guaranteeing application performance. In addition, mass adoption of ADAS and AD needs an open platform approach where value chain participants can all join and continuously leverage the enabling technologies to develop functions and features that suit their needs while reducing time to market.

By architecting our solutions to address these fundamental challenges, we build the core enabling technology for smart vehicle revolution. Our solutions enable the full spectrum of driving automation functions for passenger vehicles from mainstream assisted driving to advanced levels of autonomous driving. Built through nine years of development, testing and iterative improvements, our integrated solutions have been successfully validated, commercialized and deployed on mass scale. With our product maturity, technological advantage and commercial success, we have established ourselves as a clear market leader. The comprehensiveness and uniqueness of our solution matrix, as summarized below, allow us to rapidly penetrate the market, achieve high customer stickiness and capture a significant portion of the value chain.

We provide the entire technology stack for our solutions, including algorithms that support the ADAS and AD solutions, the underlying processing hardware on which the algorithms operate, as well as the development toolkits to accelerate the development, iteration and deployment of our solutions.

We take a software and hardware co-optimization approach, which we believe is crucial in ensuring optimal processing efficiency at affordable costs, hence the right technological path towards an autonomous driving future. We also believe that an open platform approach empowering ecosystem partners can accelerate mass adoption of autonomous driving solutions.

We have a highly flexible and scalable business model. Our customers can choose any solution or any combination of components in our whole stack offerings from algorithms to software and development tools and to processing hardware. Such flexibility has helped us continuously acquire new customers and expand market share. In addition, our business model is highly scalable. We typically scale deployment of our solutions with mass production of our OEM customers' nominated vehicles. In addition, OEM customers who have found success with our solutions in one of their vehicle models would typically expand collaboration with us to more vehicle models. Furthermore, we have the opportunity to sell more advanced solutions and additional components from our offering to our customers. These help us build a stable pipeline of contracts in the years to come.

Our flexible and scalable business model has led to significant growth of our business in the Track Record Period and lays the foundation for our continued success in the future. Our revenue increased by RMB439.0 million, or 94.1%, from RMB466.7 million in 2021 to RMB905.7 million in 2022, and further increased by RMB645.9 million, or 71.3%, to RMB1,551.6 million in 2023. Our gross profit increased from RMB331.0 million in 2021 to RMB627.7 million in 2022, and further to RMB1,094.3 million in 2023. We had high and stable gross profit margin of 70.9%, 69.3% and 70.5% in 2021, 2022 and 2023, respectively.

BASIS OF PREPARATION

The historical financial information of our Group has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS Accounting Standards") issued by the International Accounting Standards Board ("IASB"). The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of convertible redeemable preferred shares, other financial liabilities at fair value through profit or loss, and financial assets at fair value through profit or loss ("FVPL").

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 4 of the Accountant's Report included in Appendix I to this Document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

General Factors

Our business and operating results are affected by general factors affecting the smart vehicles and the ADAS and AD solutions market, which include:

General Demand for Automotive Vehicles

Our business performance is affected by vehicles sales and production volumes by OEMs. Economic conditions in China and globally can have a large impact on the demand and production of new vehicles, thereby affecting our revenue. In addition, a number of other factors such as, the growth of the automotive industry generally, the per capita disposable income of consumers, growth in consumer spending, the supply chain dynamics for auto parts and the competitive environment in automotive industry, would all affect the demand for and production of automotive vehicles, which could affect our revenue growth.

Penetration of Smart Vehicles

Our results of operations largely depend on penetration rate of smart vehicles in China and around the world. According to CIC, the penetration rates of ADAS technologies in China and global passenger vehicle markets were both over 50% in 2023. The driving automation technologies are undergoing a ground-breaking evolution as the industry transitions from driver assistance to high automation and beyond, which requires increasingly advanced solutions. This has driven, and is expected to continue to drive, the demand for our ADAS and AD solutions as a critical enabler of smart vehicles. Out of a total of 60.3 million new passenger vehicles sold globally in 2023, approximately 39.5 million were smart vehicles with ADAS and AD functions installed with 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%. We believe the increasing penetration of smart vehicles presents enormous market opportunities for our ADAS and AD solutions, which is expected to have a positive impact on our business scale, results of operations and financial condition.

- ***Growing Consumer Demands***. Consumer demand for more powerful and smart vehicles is growing rapidly. 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 see driving automation as a useful development in passenger vehicles. Smart vehicles integrate growing number of software components to enable smart functions, such as ADAS and AD solutions. As a result, consumers' demand for smart vehicles equipped with ADAS and AD solutions will significantly impact our financial performance.

- ***Increasing Adoption of ADAS and AD Solutions by OEMs***. OEMs are increasingly willing to integrate more advanced ADAS and AD solutions into their passenger car models so as to achieve a competitive edge in the automotive markets. Their continued commitment to introduce more advanced driving automation technologies to consumers will affect our results of operations and financial condition. Nevertheless, the actual technology advancement, the effective time-to-market and the affordability of the underlying ADAS and AD solutions will all influence the level and pace of adoption of our ADAS and AD solutions by OEMs.

Company Specific Factors

We believe there are several important factors that have affected and are expected to continue to affect our results of operations:

Ability to Launch Advanced Solutions and Technologies

Our ability to launch advanced solutions is fundamental to our business success. We expect to continue to upgrade our existing solutions and introduce new solutions to stay competitive. Furthermore, we need to focus on upgrading every pillar of our existing technologies, namely our algorithms, BPU, OpenExplorer, TogetheROS and AIDI, and develop new cutting-edge technologies to satisfy evolving needs and preferences of customers. Moreover, with continuous innovations of technologies, we can better help our customers smoothly and efficiently implement, operate and upgrade our solutions into their vehicles. Our ability to bring more value to our customers through continued innovations in solutions and technologies affects our customers' decisions to choose us, which in turn affects our results of operations and financial condition.

Ability to Win New Customers and Expand Relations with Our Existing Customers

Our ability to attract new customers affects our business scale, results of operations and financial condition. To obtain design-wins with new customers, we invest significant efforts and resources from the time of our initial contact with a customer until the point when such customer chooses our solutions for incorporation into one or more of its specific vehicle models. Our ability to sustain and expand these efforts plays a critical role in growing our customer base, which is expected to have an impact on our business scale, results of operations and financial condition.

Maintaining and deepening our collaboration and trust with existing customers, particularly OEMs, is critical to our business success. By deepening such relationship, we can scale deployment of our solutions with mass production of our OEM customers' vehicles. OEMs who have found success with our solutions in one of their vehicle models would typically expand collaboration with us to more vehicle models. Further, we can provide more advanced solutions and more components from our offering to our OEM customers. Retaining and expanding these customer relationships directly affect our results of operation and financial condition.

Our Business Mix

Revenue mix from different revenue sources affect our profitability. For instance, due to the varying business nature, our license and services and product solutions have different gross profit margin profiles. Therefore, the change in revenue mix of our product solutions and license and services would affect our results of operations and financial condition.

In addition, we provided non-automotive solutions to our customers during the Track Record Period, the gross profit margin of which was generally lower than that of our automotive solutions. Any change in revenue mix from our different business segments will also affect our financial performance.

Ability to Optimize Cost Structure and Improve Operational Efficiency

While we value and encourage spending on innovation, our ability to achieve and maintain profitability is dependent in part on our ability to control costs. During the Track Record Period, our cost of sales primarily consisted of cost of inventories sold. Our ability to effectively control such costs as we expand our operations has affected and will continue to affect our financial results. We aim to deepen our collaborations with suppliers to enhance the stability and affordability of supply and optimize our cost structure.

In addition, our operating efficiency is affected by our ability to control operating expenses. Research and development expenses were the largest component of our operating expenses during the Track Record Period. Our ability to ensure research and development efficiency and maintain research and development expenses at a reasonable level comparable to our revenue scale is critical to our results of operations and financial condition. In addition, controlling administrative expenses and selling and marketing expenses is also important to our success. As we further increase our revenue, we expect to benefit from economy of scale and further improve our operational efficiency.

Ability to Identify and Manage Strategic Partnerships

We may evaluate and consider a wide array of potential partnerships to generate more business opportunities and expand our revenue. Such partnerships may require additional funding and may bring profits or incur losses in the future. For instance, investments in joint ventures and associates, such as our investment in CARIZON, has affected and will continue to affect our cash flows from investing activities. Moreover, operating losses of such joint ventures and associates are recorded as share of net losses of investments accounted for using the equity method in our financial statements. The collaboration with and the operating performance of our joint ventures and associates may affect our financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates as well as complex judgments related to accounting items. The estimates we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates and judgments, which are important for understanding our financial condition and results of operations, are set forth in further detail in Note 4 to the Accountant's Report included in Appendix I to this Document.

Revenue Recognition

We recognize revenue when (or as) a performance obligation is satisfied (i.e., when control of the goods or services underlying the particular performance obligation is transferred to the customer). Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- provides all of the benefits received and consumed simultaneously by the customers;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, at the contract inception date, we allocate revenue to each performance obligation based on its relative stand-alone selling price. We determine stand-alone selling prices based on the prices charged to customers if it is directly observable. If the stand-alone selling price is not directly observable, the contractually stated price is believed to best reflect the relative stand-alone selling price of performance obligations in a contract considering ours customary business practices. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, we present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is our right to consideration in exchange for goods and services that we have transferred to a customer. A receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract liability when the payment is made, or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

Revenue is recorded net of value-added taxes. Revenues presented in the consolidated statements of loss comprises revenues from product solutions sales, license arrangements and provision of design and technical services to customers in automotive business, and provision of non-automotive solutions.

Automotive Solutions — Product Solutions

We sell automotive product solutions, which combine our self-developed processing hardware with proprietary algorithms and software.

Revenue from automotive product solutions sales is recognized upon the acceptance of promised product solutions from customers in an amount that reflects the consideration we expect to receive in exchange for those product solutions. Revenue is recognized net of discounts and any taxes collected from customers.

We generally offer assurance-type warranties to customers and such warranties are not considered a distinct performance obligation to customers. We account for the warranty in accordance with IAS 37, and the estimated warranty cost was not material during the Track Record Period.

Automotive Solutions — License and Services

We license our customers with a right to use its algorithms and software. Licenses are at times sold along with training services and post-contract service ("PCS"). The training services and the PCS each is considered as a distinct performance obligation and they are not material during the Track Record Period. The licenses granted by us are right to use licenses. Therefore, revenue from license arrangements is recognized when the algorithms, or the software, is made available to the customer and the customer is able to use and benefit from the license. Revenue from training services is recognized over the training period. PCS revenue is recognized ratably over the service period. We also provides customers design and technical services to help them integrate our solutions into their vehicles and design specific features based on their needs.

For contracts pursuant to which we have an enforceable right to payment for performance completed to date, or when the customer simultaneously receives and consumes the benefits provided by our performance as we perform, design and technical services revenue is recognized over a period of time based on the progress towards complete satisfaction in the contracts using input method, which is determined as the proportion of the costs incurred for the work performed to date relative to the estimated total costs to complete the contract, to the extent that the amount can be measured reliably and its recovery is considered probable. For other design and technical services contracts, revenue is recognized upon customers' acceptance of the service outcome.

Non-automotive Solutions

We also offer non-automotive product solutions that combine our processing hardware and algorithms. Related revenues are recognized upon the acceptance of promised product solutions by customers.

Practical Expedients and Exemptions

The effect of a significant financing component has not been adjusted for in contracts where we expect, at contract inception date, that the period between when we transfer a promised good or service to the customer and when the customer pays for that good or service will be one year or less. We elected to expense the incremental costs of obtaining a contract with a customer as incurred when the expected amortization period is one year or less.

Principles of Consolidation and Equity Accounting

Subsidiary

Subsidiaries are all entities over which we have control. We control an entity where we are exposed to, or have rights to, variable returns from our involvement with the entity and have the ability to affect those returns through our power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to us. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by us.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet, respectively.

Associates

Associates are all entities over which we have significant influence but not control or joint control. This is generally the case where we hold between 20% and 50% of the voting rights or have board seats. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

Joint Ventures

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. We have assessed the nature of our joint arrangement and determined it to be joint ventures. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated balance sheet.

Equity Method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize our share of the post-acquisition profits or losses of the investee in profit or loss, and our share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

Where our share of losses in an equity-accounted investment equals or exceeds our interest in the entity, including any other unsecured long-term receivables, we do not recognize further losses, unless we have incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between us and our associates and joint ventures are eliminated to the extent of our interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by us. The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 13 of the Accountant's Report included in Appendix I to this Document.

Preferred Shares

Preferred shares issued by us are redeemable upon occurrence of certain future events and at the option of the holders. They can be converted into our ordinary shares at any time at the option of the holders or automatically converted into ordinary shares upon the completion of this [**REDACTED**].

We do not bifurcate any embedded derivatives from the host instruments and designates the entire preferred shares instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of profit and loss and the component of fair value changes relating to our own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss but are transferred to retaining earnings when realized. Any directly attributable transaction costs are expensed as incurred.

Convertible Loan

Our convertible loan shall be automatically and mandatorily converted into the relevant equity interests upon consummation of this [**REDACTED**] or on the maturity date. The lender has rights to ask us to repay all outstanding and unpaid principal amount when some default event occurs. Therefore, we do not have the unconditional right to avoid delivering cash to settle the loan.

We did not bifurcate any embedded derivatives from the host instruments and designates the entire convertible loan as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of profit and loss and the component of fair value changes relating to our own credit risk is recognized in other comprehensive income.

Critical Estimates and Judgment

Fair Value of Financial Assets at FVPL

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Our Group uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see Note 3.3 of the Accountant's Report included in Appendix I to this Document.

Fair Value of Financial Liabilities at FVPL

Preferred shares and other financial liabilities at FVPL are not traded in an active market and the respective fair value is determined by using valuation techniques. The discounted cash flow method was used to determine our total equity value, the option-pricing method, equity allocation model and forward pricing model were adopted to determine the fair value of the financial instruments. Key assumptions such as discount rate, risk-free interest rate, discount rate for lack of marketability, or DLOM, and volatility based on our best estimates are disclosed in Note 28 of the Accountant's Report included in Appendix I to this Document.

Credit Loss Allowances for Receivables

The expected credit loss of trade and note receivables and other receivables are based on assumptions about risk of default and expected loss rates. We use judgment in making these assumptions and selecting the inputs to calculate the loss allowances, based on our past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1 of the Accountant's Report included in Appendix I to this Document.

Share-based Payment Expenses

We granted options and Restricted Share Units ("RSUs") to employees and directors. The fair value of the options is determined using the binomial option pricing model at the grant date, and is expected to be expensed over the respective vesting periods. Significant assumptions, including, underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by the directors and a third-party valuer.

The fair value of RSUs at the grant date was determined by reference to the fair value of the underlying ordinary shares on the dates of grant. The discounted cash flow method was used to determine our total equity value and the equity allocation model was adopted to determine the fair value of the ordinary shares. Key assumptions, such as discount rate, risk-free interest rate, DLOM and volatility are disclosed in Note 28 of the Accountant's Report included in Appendix I to this Document.

Current and Deferred Income Tax

We recognize deferred tax assets based on estimates that is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilized. The recognition of deferred tax assets mainly involved management's judgments and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

PATH TO PROFITABILITY

Despite our rapid growth, we were loss-making during the Track Record Period. In 2021, 2022 and 2023, we incurred losses for the year of RMB2,063.6 million, RMB8,720.4 million and RMB6,739.1 million, respectively, and adjusted net loss (non-IFRS measure) of RMB1,103.2 million, RMB1,891.4 million and RMB1,635.2 million, respectively. Our revenue increased significantly during the Track Record Period and amounted to RMB466.7 million, RMB905.7 million and RMB1,551.6 million in 2021, 2022 and 2023, respectively. Our adjusted net loss (non-IFRS measure) as a percentage of revenue significantly narrowed during the Track Record Period. In the coming years, we plan to break-even and realize profitability by expanding revenue scale, maintaining gross margin profile, enhancing operating leverage and improving operations of CARIZON. Our losses during the Track Record Period were primarily due to:

- *Substantial upfront investment required*. The ADAS and AD solutions market is highly competitive and complex, which requires substantial upfront investment into, among other things, technology advancement, talent acquisition, customer engagement and regulatory compliance. Considerable resources are necessary to fund the extensive research and development efforts aimed at creating cutting-edge algorithms, purpose-built software and state-of-the-art processing hardware in order to obtain customer and consumer acceptance of ADAS and AD solutions. Furthermore, to maintain a leading edge in technology advancement, we need to recruit top-tier talents. Competitive benefits packages and incentives are necessary to attract and retain skilled professionals who can drive our technology innovation and evolution. Moreover, customer engagement in the ADAS and AD solutions is inherently challenging. For instance, in order to invest in our relationship with OEM customers, significant efforts are essential from early engagement cycle to final seamless integration of our algorithms, software, and processing hardware into their vehicle models. Last but not least, compliance with the evolving industry regulations and standards is often challenging and costly, which entails resources towards obtaining various regulatory requirements, conducting rigorous safety testing and ensuring ongoing regulatory compliance. As such, all these factors lead to substantial upfront investment, which results in our loss positions during the Track Record Period.

- *Economy of scale is still materializing.* We are currently growing rapidly. Notably, our market share increased significantly from 3.7% in 2022 to 21.3% in 2023 among ADAS solutions providers to Chinese OEMs in terms of installation volume. However, despite the rapid growth, we have yet to produce at a volume high enough to fully leverage our economy of scale. As our business expands, we benefit from economy of scale and our operating expenses as a percentage of total revenue decreased from approximately 358.7% in 2021, to 281.8% in 2022, and further to 202.2% in 2023. Despite such positive movements, technology development and market penetration in the ADAS and AD solutions market can take time. While economy of scale can offer significant cost advantages, realizing such benefit is a gradual process, particularly for us who incur substantial upfront investment and operate in a dynamic and rapidly evolving industry.

- *Share of results of investments accounted for using the equity method.* In 2021, 2022 and 2023, we recorded share of net losses of investments accounted for using the equity method of RMB2.5 million, RMB34.3 million and RMB112.1 million, respectively. The substantial increase in share of net losses of investments accounted for using the equity method in 2023 was primarily resulted from our shared loss in CARIZON.

- *Fair value changes of preferred shares and other financial liabilities.* We recorded RMB764.0 million, RMB6,655.4 million and RMB4,760.4 million in fair value changes of preferred shares and other financial liabilities in the consolidated statements of profit or loss for the year 2021, 2022 and 2023, respectively. Fair value changes on preferred shares and other financial liabilities arise primarily from the changes in the carrying amount of our preferred shares and the convertible loan. These fair value changes are non-cash in nature. Upon the completion of this [**REDACTED**], all of such preferred shares and the convertible loan will be automatically converted into ordinary shares.

Expanding Our Revenue Scale

We are a company under rapid growth. Our revenue increased significantly during the Track Record Period and amounted to RMB466.7 million, RMB905.7 million and RMB1,551.6 million in 2021, 2022 and 2023, respectively, representing revenue growth rates of 94.1% in 2022 and 71.3% in 2023, respectively. We expect that our revenue will grow further due to the following factors:

- *Leverage positive industry tailwind.* Benefiting from the consumer acceptance and preferences for smart vehicles, enhanced driving safety standards and robust technology development, the smart vehicle market in China and globally is expected to maintain significant growth momentum in the future. Accordingly, the market for ADAS and AD solutions is expected to grow rapidly as well. For details, see "Industry Overview — Overview of the Smart Vehicle Market" and "Industry Overview — Overview of the ADAS and AD Solutions Market." Benefiting from such positive industry tailwind, we believe we are well positioned to capture the market potential and achieve sustainable significant growth in the future. Moreover, our expertise in ADAS and AD solutions gives us a significant competitive advantage whereby we can capitalize on our technology capacity by continuously developing advanced ADAS and AD solutions that outperform our competitors. Such expertise also translates to our ability to gain additional market share. We were the largest Chinese ADAS solutions provider to Chinese OEMs in domestic market by installation volume in 2023, according to CIC. Notably, our market share increased significantly from 3.7% in 2022 to 21.3% in 2023. Looking ahead, benefiting from our cutting-edge algorithms, purpose-built software and state-of-the-art processing hardware, we are poised to maintain this momentum and continue our revenue growth trajectory.

- *Capitalize on robust backlogs.* We have the largest OEM customer base in China among solution providers. Our integrated solutions have been selected by 24 OEMs (31 OEM brands) for implementation in over 230 passenger car models as of the Latest Practicable Date. As a result of our wide OEM coverage, we have secured robust backlogs of orders for vehicles not yet mass produced. As of December 31, 2023, vehicle models that have yet to achieve mass production represent more than 50% of all vehicle models of which we have obtained design-wins. Future commercialization of such vehicle models that have yet to achieve mass production can further support our future revenue growth in the years to come.

- *Attract new customers.* We plan to further grow the size of our customer base, leveraging our current flexible business model and industry-leading open platform. Customers can choose any solution or any combination of components in our whole stack offerings, providing flexibility to our customers to select the solutions that best suit their needs, which, in turn, can help us continuously acquire new customers and expand market share. In addition, by purposefully designing our platform to allow industry participants to develop tailor-made ADAS and AD features, we can attract a broader range of new customers who are willing to use our open platform to benefit their own businesses. With more OEMs and third-party developers working on our platform, we can broaden our industry penetration, leading to adoption of our ADAS and AD solutions by new customers.

- *Expand collaboration with existing customers.* Our future growth is dependent on our ability to maintain and deepen relationships with our existing customers. By committing to expand and deepen such relationships, we can scale deployment of our solutions in tandem with our customers' increasing production volumes of vehicles equipped with our solutions. Moreover, OEMs who have found success with our solutions in one of their vehicle models would typically expand collaboration with us to more vehicle models. Furthermore, we have the opportunity to offer more advanced solutions and more components from our offering to our customers.

- *Expand to new geographies.* We aim to extend our reach beyond markets in China and bring our solutions to enable global partners. Currently, substantially all of our revenues are derived in China. We intend to enhance our international presence through partnering with global OEMs and tier one suppliers to explore global markets, particularly in Japan, South Korea and Europe. As the demand for advanced driving automation grows worldwide, we can capitalize on such opportunities by expanding our presence globally with our customers. We believe our strategic partnership with Chinese OEMs can turn into huge revenue growth potential due to their increasing international presence. In addition, we intend to establish strategic and commercial partnerships with other global industry leaders to enhance market presence on a global scale and pave the way for collaborative innovation. For details, see "Business — Our Growth Strategies — Expand Our Solutions to Enable Global Partners."

- *Introduce new solutions with higher price meeting the surging demand for smart vehicles.* We plan to introduce new solutions with more advanced technologies. We are expanding our solutions portfolio, including developing more advanced AD solutions based on our next generation of hardware. We also intend to continue to invest in advanced algorithms and AD software applications that are co-designed and co-optimized with our new generation of hardware to further optimize processing efficiency, enhance performance and minimize latency. We believe more advanced driving automation technologies allow us to charge a higher price. Customers and consumers who prioritize innovation are willing to pay a higher price for a more enjoyable mobility experience. We believe such pricing increase for our ADAS and AD solutions can boost our revenue growth.

Maintaining Our Gross Margin Profile

Our future profitability depends on our ability to sustain the current level of margin profile and introduce new solutions with high margin profile. Our gross profit margin amounted to 70.9%, 69.3% and 70.5% in 2021, 2022 and 2023, respectively. We expect to maintain our gross margin profile by implementing the following:

- *Continuous innovation.* Sustaining our profitability necessitates a proactive approach to continuously introducing new solutions with a relatively high margin profile. As such, we will continue to allocate resources to research and development initiatives aimed at fostering innovation and developing cutting-edge technologies. By doing so, we can justify premium pricing, stay ahead of the competition, and maintain our profitability in the long run.

- *Supply chain management and improvement.* We will optimize supply chain to drive cost reduction. For instance, we will continue to enhance our relationships with supplier by fostering long-term partnerships and diversify our current supplier pool for stable and affordable supplies. Additionally, we will enhance our inventory and supply chain management practices to ensure that we can always maintain a reasonably adequate stock level that is suited for our long-term profitability.

- *Business mix optimization.* We will further adjust our business mix to maintain our gross profit margin. We will continue to focus on automotive solutions, particularly our license and services which incur less cost of inventories sold and have a relatively high gross profit margin. As such, we will further commercialize our license and services by diversifying our software and development toolkits portfolio to keep the revenue mix from license and services at an optimal level, thereby maintaining our overall gross profit margin.

Enhancing Operating Leverage

During the Track Record Period, we incurred significant operating expenses, including research and development expenses, administrative expenses and selling and marketing expenses, to develop, manage and promote our automotive solutions. In the future, we will continue optimizing our research and development as well as sales and administrative functions to support our long-term business growth.

- *Research and development.* During the Track Record Period, we allocated significant resources on research and development, focusing on possessing comprehensive research and development capabilities to support the development of cutting-edge algorithms, purpose-built software and state-of-the-art processing hardware. Our research and development expenses were RMB1,143.6 million, RMB1,879.9 million and RMB2,366.3 million in 2021, 2022 and 2023, respectively. We believe our current resources allocation strategy for research and development has already brought enormous benefits. For instance, the long planning cycles of automotive industry demands us to make considerable upfront investments in research and development, which may take several years to ramp up. Nonetheless, due to our targeted research and development approach on open platform and flexible business model, such upfront investments can support our future product pipeline and sustain our technological advantage at lower additional costs. As a result of the foregoing, our research and development expenses as a percentage of total revenues decreased from 245.0% in 2021, to 207.6% in 2022 and further to 152.5% in 2023. We expect our research and development expenses to remain a substantial portion of our operating expenses to support our business expansion in the future, but our research and development expenses as a percentage of revenue to keep decreasing.

- *Administrative expenses.* Our administrative expenses amounted to RMB319.0 million, RMB373.9 million and RMB443.4 million in 2021, 2022 and 2023, respectively. Our administrative expenses as a percentage of total revenues decreased from 68.3% in 2021, to 41.3% in 2022 and further to 28.6% in 2023, primarily due to the revenue increase and economy of scale driven by of our business expansion. We will continue to actively monitor our administrative expenses and promote operational efficiency. We expect our administrative expenses in the absolute amount to increase alongside our business expansion in the future, but our administrative expenses as a percentage of revenue to keep decreasing.

- *Selling and marketing expenses.* Our selling and marketing expenses amounted to RMB211.4 million, RMB298.5 million and RMB327.2 million in 2021, 2022 and 2023, respectively. Our selling and marketing expenses as a percentage of total revenues decreased from 45.3% in 2021, to 33.0% in 2022 and further to 21.1% in 2023, primarily due to the significant revenue increase, economy of scale and strong connections with our customers. We expect our selling and marketing expenses in the absolute amount to increase alongside our business expansion in the future, but our selling and marketing expenses as a percentage of revenue to keep decreasing. Going forward, we will further leverage our strong direct relationships and strong channels of communication with our customers in order to win additional contracts, and target customers more cost-effectively.

Improving Operations of CARIZON

We strategically partner with Volkswagen Group, a global industry giant through CARIZON, to capture the future opportunities of customized driving automation solutions in China. CARIZON was established in November 2023 and is still in ramping up stage with no revenue generated yet. We have picked up CARIZON's losses as share of losses of investments accounted for using the equity method since its establishment. As CARIZON is still ramping up, we expect to continue to pick up such share of losses. Benefiting from synergies with Volkswagen Group (CARIZON's largest shareholder and customer), CARIZON has a clear go-to-market strategy and can effectively drive revenue growth by fulfilling orders from Volkswagen Group. Therefore, we believe CARIZON will be able to continuously deploy its products to mass produced vehicles, especially the ones of the Volkswagen Group. In addition, we, as a shareholder of CARIZON, will also actively participate in its business operation by bringing agile research and development process and local insights. We aim to enhance our economic benefits as a shareholder of CARIZON, while preserving business synergies and long-term upside from our investment.

DESCRIPTION OF SELECTED ITEMS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth selected items of our consolidated statements of profit or loss for the years indicated, derived from our consolidated statements of profit or loss set out in the Accountant's Report included in Appendix I to this Document. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the Year Ended December 31,		
	2021	2022	2023
	RMB	*RMB*	*RMB*
		(in thousands)	
Revenue from contracts with customers	466,720	905,676	1,551,607
Cost of sales	(135,734)	(277,963)	(457,297)
Gross profit	**330,986**	**627,713**	**1,094,310**
Research and development expenses	(1,143,642)	(1,879,888)	(2,366,255)
Administrative expenses	(319,003)	(373,909)	(443,366)
Selling and marketing expenses	(211,390)	(298,500)	(327,249)
Net impairment losses on financial assets	(5,098)	(13,039)	(20,793)
Other income	14,483	43,662	66,222
Other losses, net	(1,669)	(238,055)	(33,391)
Operating loss	**(1,335,333)**	**(2,132,016)**	**(2,030,522)**
Finance income	28,239	104,528	167,473
Finance costs	(16,592)	(7,548)	(8,651)
Finance income, net	11,647	96,980	158,822
Share of results of investments accounted for using the equity method	(2,530)	(34,298)	(112,074)
Fair value changes of preferred shares and other financial liabilities through profit or loss	(763,984)	(6,655,367)	(4,760,354)
Loss before income tax	**(2,090,200)**	**(8,724,701)**	**(6,744,128)**
Income tax benefit	26,650	4,273	5,075
Loss for the year	**(2,063,550)**	**(8,720,428)**	**(6,739,053)**
Loss is attributable to:			
Owners of the Company	(2,061,293)	(8,719,410)	(6,739,021)
Non-controlling interests	(2,257)	(1,018)	(32)
Adjusted operating loss (Non-IFRS measure)[(1)]	**(1,138,964)**	**(1,958,318)**	**(1,686,991)**
Adjusted net loss (Non-IFRS measure)[(2)]	**(1,103,197)**	**(1,891,363)**	**(1,635,168)**

Notes:

(1) Adjusted operating loss is a non-IFRS measure. We define adjusted operating loss (Non-IFRS measure) as operating loss for the years adjusted by adding back (i) share-based payments, which are non-cash in nature, and (ii) [**REDACTED**], which relate to the [**REDACTED**]. Adjusted operating loss is not a measure required by, or presented in accordance with, IFRS. The use of adjusted operating loss has limitations as an analytical tool, and you should not consider it in isolation from, as a substitute for analysis of, or superior to, our results of operations or financial condition as reported under IFRS. For details, see "Financial Information — Non-IFRS Measures."

(2) Adjusted net loss is a non-IFRS Measure. We define adjusted net loss (Non-IFRS measure) as loss for the years adjusted by adding back (i) share-based payments, which are non-cash in nature, (ii) [**REDACTED**], which relate to the [**REDACTED**], and (iii) fair value changes on preferred shares and other financial liabilities, which are non-cash items. Upon the completion of this [**REDACTED**], all of the preferred shares will be automatically converted into ordinary shares, and all the principal amount and accrued interests of the convertible loan will be automatically and mandatorily converted into ordinary shares, subject to certain beneficial interest cap. All preferred shares and other financial liabilities will be reclassified to equity upon conversion, and no longer measured at fair value going forward. Adjusted net loss is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net loss has limitations as an analytical tool, and you should not consider it in isolation from, as a substitute for analysis of, or superior to, our results of operations or financial condition as reported under IFRS. For details, see "Financial Information — Non-IFRS Measures."

NON-IFRS MEASURES

The following tables reconcile Non-IFRS measures for the years presented with the nearest measures prepared in accordance with IFRS Accounting Standards.

	For the year ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
Reconciliation for adjusted operating loss (Non-IFRS measure):			
Operating loss	(1,335,333)	(2,132,016)	(2,030,522)
Add back:			
Share-based payments[1]	196,369	173,698	341,751
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted operating loss	**(1,138,964)**	**(1,958,318)**	**(1,686,991)**
Reconciliation for adjusted net loss (Non-IFRS measure):			
Loss for the year	(2,063,550)	(8,720,428)	(6,739,053)
Add back:			
Share-based payments[1]	196,369	173,698	341,751
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Fair value changes of preferred shares and other financial liabilities[2]	763,984	6,655,367	4,760,354
Adjusted net loss	**(1,103,197)**	**(1,891,363)**	**(1,635,168)**

Notes:

(1) Share-based payments relate to (i) the share awards we offered to our employees and directors under the 2018 Share Incentive Plan and (ii) the excess of the transaction price over the fair value of the Class A ordinary shares, with reference to a third-party valuation report, which was considered compensatory in nature in exchange for service of the founders, and therefore was recognized as share-based payment expense and credited to share premium. For details, see Note 24 (b), Note 26(a) and Note 26(b) of the Accountant's Report included in Appendix I to this Document.

(2) Fair value changes on preferred shares and other financial liabilities arise primarily from the changes in the carrying amount of our preferred shares and convertible loan in connection with our financing activities. These fair value changes are non-cash in nature. Upon the completion of this [**REDACTED**], all of the preferred shares will be automatically converted into ordinary shares, and all the principal amount and accrued interests of the convertible loan will be automatically and mandatorily converted into ordinary shares, subject to certain beneficial interest cap. All preferred shares and other financial liabilities will be reclassified to equity upon conversion, and no longer measured at fair value going forward.

To supplement our consolidated statements of profit or loss which are presented in accordance with IFRS, we use adjusted operating loss (Non-IFRS measure) and adjusted net loss (Non-IFRS measure) as non-IFRS measures, which are not required by, or presented in accordance with, IFRS. Our adjusted operating loss (non-IFRS measure) and adjusted net loss (non-IFRS measure) as a percentage of revenue significantly narrowed during the Track Record Period.

We define adjusted operating loss (Non-IFRS measure) as operating loss for the years adjusted by adding back (i) share-based payments, which are non-cash in nature, and (ii) [**REDACTED**], which relate to the [**REDACTED**]. We define adjusted net loss (Non-IFRS measure) as loss for the years adjusted by adding back (i) share-based payments, which are non-cash in nature, (ii) [**REDACTED**], which relate to the [**REDACTED**], and (iii) fair value changes on preferred shares and other financial liabilities, which are non-cash items. Upon the completion of this [**REDACTED**], all of the preferred shares will be automatically converted into ordinary shares, and all the principal amount and accrued interests of the convertible loan will be automatically and mandatorily converted into ordinary shares, subject to certain beneficial interest cap. All preferred shares and other financial liabilities will be reclassified to equity upon conversion, and no longer measured at fair value going forward. We have made such adjustments consistently during the Track Record Period complying with Chapter 3.11 of the Guide for New Listing Applicants issued by the Stock Exchange. We believe that Non-IFRS measures facilitate the comparisons of operating performance and provide useful information to [**REDACTED**] and others in understanding and evaluating our operating performance in the same manner as it helps our management. However, our presentation of Non-IFRS measures for the years may not be comparable to similarly titled measures presented by other companies. The use of Non-IFRS measures has limitations as an analytical tool, and [**REDACTED**] should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS Accounting Standards.

DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We generate our revenues through two main business segments, namely (i) automotive solutions which comprise product solutions and license and services, and (ii) non-automotive solutions. Our revenue primarily derives from our automotive solutions, which reflect our strategic focus. We also generate a small portion of our revenue from non-automotive solutions.

The following table sets forth a breakdown of our revenue by revenue source during the years indicated, both in absolute amounts and as percentages of total revenue.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Automotive solutions						
Product solutions	208,083	44.6	319,312	35.3	506,386	32.7
License and services	202,081	43.3	481,826	53.2	963,978	62.1
Subtotal	410,164	87.9	801,138	88.5	1,470,364	94.8
Non-Automotive solutions	56,556	12.1	104,538	11.5	81,243	5.2
Total Revenue	**466,720**	**100.0**	**905,676**	**100.0**	**1,551,607**	**100.0**

Automotive Solutions

Our revenue is primarily generated from automotive solutions, comprising product solutions and license and services.

Product Solutions

During the Track Record Period, revenue generated from product solutions amounted to RMB208.1 million, RMB319.3 million and RMB506.4 million in 2021, 2022 and 2023, respectively, accounting for 44.6%, 35.3% and 32.7% of our total revenue for the same years, respectively. We generate revenue from the sale and delivery of our product solutions, which combine our self-developed processing hardware with proprietary algorithms and software, to OEMs and tier-one suppliers. The price of each product solution depends on the type of algorithm and software involved, as well as the type and number of processing hardware integrated.

License and Services

During the Track Record Period, revenue generated from license and services amounted to RMB202.1 million, RMB481.8 million and RMB964.0 million in 2021, 2022 and 2023, respectively, accounting for 43.3%, 53.2% and 62.1% of our total revenue for the same years, respectively. We generate revenue from licensing our algorithms, software and development toolkit to our customers, enabling them to develop their own applications catering to specific needs. The amount of licensing fees typically depends on the complexity and variety of algorithms, software and development toolkits involved. We generate revenue from the provision of design and technical services to our customers, primarily OEMs, to help them integrate our solutions into their vehicles and design specific features based on their needs. We charge service fees based on the type of services and the amount of personnel or resources involved.

Non-automotive Solutions

Our non-automotive solutions enable device manufacturers to design and manufacture devices and appliances, such as lawn mowers, with enhanced levels of intelligence, leading to better user experience. As non-automotive solutions are not our strategic focus, revenue from non-automotive solutions as a percentage of total revenue decreased from 12.1% in 2021, to 11.5% in 2022, and further to 5.2% in 2023.

Cost of Sales

Our cost of sales consists of the costs directly related to providing our solutions to our customers. The following table sets forth a breakdown of our cost of sales, both in absolute amounts and as percentages of total cost of sales by revenue source during the years indicated.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Automotive solutions						
Product solutions	65,494	48.2	121,006	43.5	280,160	61.3
License and services	16,105	11.9	58,713	21.2	106,493	23.3
Subtotal	81,599	60.1	179,719	64.7	386,652	84.6
Non-Automotive solutions	54,135	39.9	98,244	35.3	70,645	15.4
Total cost of sales	**135,734**	**100.0**	**277,963**	**100.0**	**457,297**	**100.0**

Our cost of sales primarily consists of costs related to automotive solutions. In 2021, 2022 and 2023, our cost of sales was RMB135.7 million, RMB278.0 million and RMB457.3 million, respectively. Our cost of sales for product solutions constituted the largest component of our total cost of sales during the Track Record Period, amounting to RMB65.5 million, RMB121.0 million and RMB280.2 million in 2021, 2022 and 2023, respectively. Our cost of sales for non-automotive solutions as a percentage to total cost of sales decreased substantially from 39.9% in 2021 to 15.4% in 2023 in line with our strategic focus to prioritize automotive solutions.

The following table sets forth a breakdown of our cost of sales by nature both in absolute amounts and as percentages of total cost of sales.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Cost of inventories sold	122,883	90.5	240,279	86.4	392,101	85.7
Employee benefit expenses	12,851	9.5	37,684	13.6	65,196	14.3
Total cost of sales	**135,734**	**100.0**	**277,963**	**100.0**	**457,297**	**100.0**

In terms of cost of sales by nature, cost of inventories sold, primarily bill of materials for processing hardware and peripheral devices, was our largest cost component. Our cost of inventories sold as a percentage of total cost of sales decreased from 90.5% in 2021 to 85.7% in 2023 primarily due to a relatively faster increase in employee benefit expenses associated with provision of license and services during the Track Record Period.

Gross Profit and Gross Profit Margin

Gross profit is equal to our revenue less cost of sales. Our gross profit as a percentage of our revenue is our gross profit margin. Our gross profit increased significantly from RMB331.0 million in 2021 to RMB627.7 million in 2022, and further to RMB1,094.3 million in 2023, which is in line with our revenue growth during the Track Record Period. Our gross profit margin remained relatively stable at 70.9%, 69.3% and 70.5% in 2021, 2022 and 2023, respectively. The following table sets forth our gross profit and gross profit margin by revenue source for the years indicated.

	For the Year Ended December 31,					
	2021		2022		2023	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Automotive solutions						
Product solutions .	142,589	68.5	198,306	62.1	226,226	44.7
License and services	185,976	92.0	423,113	87.8	857,486	89.0
Subtotal	328,565	80.1	621,419	77.6	1,083,712	73.7
Non-Automotive solutions	2,421	4.3	6,294	6.0	10,598	13.0
Total	**330,986**	**70.9**	**627,713**	**69.3**	**1,094,310**	**70.5**

Our gross profit and gross profit margin have been and will continue to be affected by a number of factors, including the revenue mix of our product solutions and license and services, our pricing strategies, the mix of automotive and non-automotive solutions, cost of inventories sold and employee benefit expenses, among other factors. Our license and services typically have higher gross profit margin compared to our product solutions because our license and services incur lower cost of inventories sold as compared to our product solutions. Our overall gross profit margin varies from year to year depending on the evolving mix from different revenue sources.

Our gross profit margin differs for our automotive and non-automotive solutions during the Track Record Period. The higher gross profit margin for our automotive solutions is attributable to our higher pricing power for automotive solutions due to, among other things, differences in solutions application scenarios, different standards required and differences in complexity of the underlying technology.

Research and Development Expenses

Research and development expenses consist of (i) employee benefit expenses, including salaries, benefits, and share-based payments of research and development personnel; (ii) depreciation and amortization of property, plant and equipment, intangible assets and right-of-use assets utilized in research and development activities; (iii) technical service fees relating to research and development activities; (iv) outsourcing fees, primarily related to fees incurred for outsourced personnel on research and development activities; and (v) other expenses, including, among others, traveling expenses, utilities and property management fees. The following table sets forth a breakdown of our research and development expenses during the years indicated, both in absolute amounts and as percentages of total research and development expenses.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Research and development expenses						
Employee benefit expenses	751,150	65.7	1,175,565	62.5	1,435,620	60.7
Depreciation and amortization	138,525	12.1	275,500	14.7	337,581	14.2
Technical service fees	101,475	8.9	176,315	9.4	253,225	10.7
Outsourcing fees	44,985	3.9	164,293	8.7	150,821	6.4
Other expenses	107,507	9.4	88,215	4.7	189,008	8.0
Total research and development expenses	**1,143,642**	**100.0**	**1,879,888**	**100.0**	**2,366,255**	**100.0**

In 2021, 2022 and 2023, we incurred research and development expenses of RMB1,143.6 million, RMB1,879.9 million and RMB2,366.3 million, respectively. Employee benefit expenses remained the single largest component of our research and development expenses during the Track Record Period, accounting for 65.7%, 62.5% and 60.7% of total research and development expenses in 2021, 2022 and 2023, respectively.

We believe that continuous investment in research and development is vital to our future growth. We will continue to invest in research and development, including recruiting additional technology talents, acquiring necessary licenses, facilities and equipment, and developing new processing hardware with stronger processing capacity and higher power efficiency to support the development of our automotive solutions. As such, we expect our research and development expenses to increase in absolute amount in the foreseeable future.

Administrative Expenses

Our administrative expenses consist of (i) employee benefit expenses, including salaries, benefits, and share-based payments of administrative personnel; (ii) professional service and other consulting fees in relation to legal, finance and tax and other related matters; (iii) traveling expenses in relation to our administrative personnel; (iv) tax related surcharge; and (v) others, including, among others, depreciation and amortization, utilities, and property management fees. The following table sets forth a breakdown of our administrative expenses, both in absolute amounts and as percentages of total administrative expenses for the years indicated.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Administrative expenses						
Employee benefit expenses	187,756	58.9	205,582	55.0	302,245	68.2
Professional service and other consulting fees	83,560	26.1	99,393	26.5	65,526	14.8
Traveling expenses	23,449	7.4	18,957	5.1	19,669	4.4
Tax related surcharges	2,936	0.9	9,243	2.5	19,714	4.4
Other expenses	21,302	6.7	40,734	10.9	36,212	8.2
Total administrative expense	**319,003**	**100.0**	**373,909**	**100.0**	**443,366**	**100.0**

In 2021, 2022 and 2023, we incurred administrative expenses of RMB319.0 million, RMB373.9 million and RMB443.4 million, respectively. Employee benefit expenses remained the single largest component of our administrative expenses during the Track Record Period, accounting for 58.9%, 55.0% and 68.2% of total administrative expenses in 2021, 2022 and 2023, respectively.

We expect our administrative expenses to increase in the foreseeable future as we expand our operations. However, we expect that our administrative expenses as a percentage of total revenue to decrease as we improve our operational efficiency and benefit from economy of scale.

Selling and Marketing Expenses

Our selling and marketing expenses consist of (i) employee benefit expenses, including salaries, benefits, and share-based payments of sales personnel; (ii) marketing business development, conferences and traveling expenses incurred by sales personnel; (iii) outsourcing fees in relation to outsourced personnel and professional service fees in connection with sales and marketing activities; and (iv) others, including, among others, depreciation and amortization, utilities and property management. The following table sets forth a breakdown of our selling and marketing expenses for the years indicated, both in absolute amounts and as percentages of total selling and marketing expenses.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Selling and marketing expenses						
Employee benefit expenses	115,786	54.8	183,809	61.6	210,996	64.5
Marketing conferences and traveling expenses	54,778	25.9	53,162	17.8	59,014	18.0
Outsourcing fees	20,468	9.7	47,516	15.9	35,967	11.0
Other expenses	20,358	9.6	14,013	4.7	21,272	6.5
Total selling and marketing expenses	**211,390**	**100.0**	**298,500**	**100.0**	**327,249**	**100.0**

In 2021, 2022 and 2023, we incurred selling and marketing expenses of RMB211.4 million, RMB298.5 million and RMB327.2 million, respectively. Employee benefit expenses remained the single largest component of our selling and marketing expenses during the Track Record Period, accounting for 54.8%, 61.6% and 64.5% of total selling and marketing expenses in 2021, 2022 and 2023, respectively.

We plan to continue to spend on sales and marketing to promote our brand, deepen our relationships with our existing customers and attract new customers. As a result, we expect our selling and marketing expenses to increase in absolute amount in the foreseeable future. Meanwhile, we expect our selling and marketing expenses to decrease as a percentage of our total revenue as we benefit from our enhanced brand awareness, established customer base and economy of scale.

Net Impairment Losses on Financial Assets

Our impairment losses on financial assets consist of impairment losses recognized from (i) trade and note receivables; and (ii) other receivables. During the Track Record Period, we recognized net impairment losses on financial assets of RMB5.1 million, RMB13.0 million and RMB20.8 million in 2021, 2022 and 2023, respectively. For details, see Note 3.1(b) of the Accountant's Report included in Appendix I to this Document.

Other Income

Our other income primarily represents (i) financial subsidies; and (ii) tax refund in connection with VAT refunds pursuant to government policies to support businesses. The following table sets forth a breakdown of our other income for the years indicated.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Other income						
Financial subsidies	10,810	74.6	30,503	69.9	50,238	75.9
Tax refund	3,673	25.4	13,159	30.1	15,984	24.1
Total other income	**14,483**	**100.0**	**43,662**	**100.0**	**66,222**	**100.0**

Other (Losses)/Gain, Net

Our other (losses)/gains, net consist of (i) fair value changes of financial assets at fair value through profit or loss, reflecting the valuation of unlisted companies that we invested in which we hold minor interest and the valuation of wealth management products we purchased; (ii) net foreign exchange differences resulted from changes in foreign exchange rates; (iii) donations; (iv) (losses)/gains on disposal of subsidiaries; and (v) others. The following table sets forth a breakdown of our other (losses)/gains, net for the years indicated.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Fair value changes of financial assets at fair value through profit or loss	(5,286)	316.7	29,715	(12.5)	8,852	(26.5)
Net foreign exchange differences	11,080	(663.9)	(264,660)	111.2	(40,334)	120.8
Donations	(4,415)	264.5	—	—	(672)	2.0
(Losses)/gains on disposal of subsidiaries	(3,142)	188.3	—	—	623	(1.9)
Others	94	(5.6)	(3,110)	1.3	(1,860)	5.6
Total other (losses)/gains, net	**(1,669)**	**100.0**	**(238,055)**	**100.0**	**(33,391)**	**100.0**

Finance Income

Our finance income consists primarily of interest income from financial assets held for cash management purposes, such as interests on demand deposits and term deposits. In 2021, 2022 and 2023, we had finance income of RMB28.2 million, RMB104.5 million, and RMB167.5 million, respectively.

Finance Costs

Our finance costs consist of (i) interest for lease liabilities; and (ii) finance charges paid for issuance of preferred shares to investors in relation to our financing activities. See Note 10 of the Accountant's Report included in Appendix I to this Document. The following table sets forth a breakdown of our finance costs for the years indicated.

	For the Year Ended December 31,					
	2021		2022		2023	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Finance costs						
Interest for lease liabilities	(4,711)	28.4	(7,548)	100.0	(8,651)	100.0
Finance charges paid for issuance of preferred shares	(11,881)	71.6	—	—	—	—
Total finance costs	**(16,592)**	**100.0**	**(7,548)**	**100.0**	**(8,651)**	**100.0**

Share of Results of Investments Accounted for Using the Equity Method

We recorded share of net losses of investments accounted for using the equity method in the amount of RMB2.5 million, RMB34.3 million and RMB112.1 million in 2021, 2022 and 2023, respectively, primarily reflecting losses of our joint ventures and associates. See Note 13 of the Accountant's Report included in Appendix I to this Document.

Fair Value Changes of Preferred Shares and Other Financial Liabilities

We recorded RMB764.0 million, RMB6,655.4 million and RMB4,760.4 million in fair value changes of preferred shares and other financial liabilities in the consolidated statements of profit or loss in 2021, 2022 and 2023, respectively, primarily representing changes in fair value of preferred shares and convertible loan. See Note 28 of the Accountant's Report included in Appendix I to this Document.

Income Tax Benefits

We recorded RMB26.7 million, RMB4.3 million and RMB5.1 million in income tax benefits in 2021, 2022 and 2023, respectively, representing tax losses carried forward expected to be realized in the future.

Loss for the Year

As a result of foregoing, we recorded RMB2,063.6 million, RMB8,720.4 million and RMB6,739.1 million in loss for the year in 2021, 2022 and 2023, respectively.

TAXATION

Cayman Islands

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gain. Additionally, upon payments of dividends by us in the Cayman Islands to our shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Our subsidiaries in Hong Kong, including Horizon Hong Kong, our wholly owned subsidiary, are subject to Hong Kong profits tax on their activities conducted in Hong Kong at rate of 8.25% on assessable profits up to HK$2 million, and 16.5% on any part of assessable profits over HK$2 million. The payments of dividends by our Hong Kong subsidiaries to their shareholders are not subject to any Hong Kong withholding tax.

PRC

Our subsidiaries in China are companies incorporated under PRC law and, as such, are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws. Pursuant to the PRC Enterprise Income Tax Law, or PRC EIT Law, which became effective on January 1, 2008, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies.

Five of our major subsidiaries were entitled to a preferential corporate income tax rate of 15%. During the Track Record Period, these subsidiaries have obtained their High and New Technology Enterprises ("HNTE") status, and hence they are entitled to a preferential tax rate of 15% for a three-year period. This status is subject to a requirement that they reapply for HNTE status every three years. We will apply for the renewal of the HNTE status for all of these subsidiaries, and we believe it is more likely than not that each of these subsidiaries will continue to qualify as a HNTE after the three-year period. Therefore, deferred tax of these entities were calculated at a rate of 15% starting from the year when they were accredited as HNTEs.

We are subject to VAT on the solutions provided. We are also subject to surcharges on VAT payments in accordance with PRC law.

If our holding company in the Cayman Islands or any of our subsidiaries outside China were deemed to be a "resident enterprise" under the PRC EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Risk Factors — Risks Related to Doing Business in China — If we are classified as a PRC resident enterprise for PRC enterprise income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders."

DISCUSSION OF RESULTS OF OPERATIONS

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Revenue

Our revenue increased significantly by 71.3% from RMB905.7 million in 2022 to RMB1,551.6 million in 2023, primarily due to the expansion of our customer base as well as increased spendings from our existing customers.

- ***Product solutions.*** Our revenue from sales of product solutions increased by 58.6% from RMB319.3 million in 2022 to RMB506.4 million in 2023, primarily due to a well-established customer base of tier-one suppliers and OEMs that allows us to boost the sales of product solutions. In particular, leveraging such strong customer base, we are able to (i) scale deployment of our solutions with mass production of our OEM customers' vehicles, (ii) integrate our product solutions with more vehicle models from our OEM customers, and (iii) sell more advanced solutions and more components from our offering to our OEM customers. Furthermore, we also attracted new customers to adopt our product solutions, which further drives revenue growth.

- ***License and services.*** Our revenue generated from license and services increased by 100.1% from RMB481.8 million in 2022 to RMB964.0 million in 2023, primarily driven by an increase in the number and value of contracts with customers. In 2023, we attracted a number of new customers who contributed license and services revenue.

Due to our strategic focus on automotive solutions, our revenue from non-automotive solutions decreased from RMB104.5 million in 2022 to RMB81.2 million in 2023.

Cost of Sales

Our total cost of sales increased by 64.5% from RMB278.0 million in 2022 to RMB457.3 million in 2023, primarily due to (i) an increase of cost of sales for product solutions by 131.5% from RMB121.0 million in 2022 to RMB280.2 million in 2023 and (ii) an increase of cost of sales for license and services by 81.4% from RMB58.7 million in 2022 to RMB106.5 million in 2023, partially offset by a decrease in cost of sales from non-automotive solutions from RMB98.2 million in 2022 to RMB70.6 million in 2023.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased from RMB627.7 million in 2022 to RMB1,094.3 million in 2023.

Our gross profit margin remained relatively stable at 69.3% in 2022 and 70.5% in 2023, resulting from the changes in mix of our revenue sources and their respective gross profit margins.

- ***Product solutions.*** Our gross profit margin from product solutions decreased from 62.1% in 2022 to 44.7% in 2023, primarily because we adopted a more competitive pricing strategy on our early generation of product solutions to gain market share.

- ***License and services.*** Our gross profit margin from license and services remained relative stable at 87.8% and 89.0% in 2022 and 2023, respectively.

Our gross profit margin for non-automotive solutions increased from 6.0% in 2022 to 13.0% in 2023 because we raised our pricing for non-automotive solutions.

Research and Development Expenses

Our research and development expenses increased by 25.9% from RMB1,879.9 million in 2022 to RMB2,366.3 million in 2023, which was primarily due to an increase in employee benefit expenses paid to our research and development personnel. As our revenue continues to grow and we increasingly focus on research and development efficiency, our research and development expenses as a percentage of revenue decreased from 207.6% in 2022 to 152.5% in 2023.

Administrative Expenses

Our administrative expenses increased by 18.6% from RMB373.9 million in 2022 to RMB443.4 million in 2023, primarily due to an increase in employee benefit expenses paid to employees performing administrative functions. As our revenue continues to grow and we increasingly focus on administrative efficiency, our administrative expenses as a percentage of total revenues decreased from 41.3% in 2022 to 28.6% in 2023.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 9.6% from RMB298.5 million in 2022 to RMB327.2 million in 2023, which was primarily due to an increase in personnel hired to promote our new and existing automotive solutions. As our revenue continues to grow and we increasingly focus on sales and marketing efficiency, our selling and marketing expenses as a percentage of total revenues decreased from 33.0% in 2022 to 21.1% in 2023.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets increased by 59.5% from RMB13.0 million in 2022 to RMB20.8 million in 2023, primarily due to our business expansion that leads a corresponding increase in loss allowance for our trade receivables.

Other Income

Our other income increased by 51.7% from RMB43.7 million in 2022 to RMB66.2 million in 2023, primarily due to an increase of financial subsidies from RMB30.5 million in 2022 to RMB50.2 million in 2023 as well as an increase in tax refund resulting from VAT refund based on government policies to support businesses.

Other Losses, Net

Our other losses, net decreased from RMB238.1 million in 2022 to RMB33.4 million in 2023, primarily because our net foreign exchange losses decreased from RMB264.7 million in 2022 to RMB40.3 million in 2023, reflecting the changes in foreign exchange rate as well as our management and control of foreign exchange risks.

Operating Loss

As a result of the foregoing, we recorded operating losses of RMB2,132.0 million and RMB2,030.5 million in 2022 and 2023.

Net Finance Income

Our net finance income increased by 63.8% from RMB97.0 million in 2022 to RMB158.8 million in 2023, driven by an increase in interest income from financial assets held for cash management purposes.

Share of Results of Investments Accounted for Using the Equity Method

Our share of net losses of investments accounted for using the equity method increased by 226.8% from RMB34.3 million in 2022 to RMB112.1 million in 2023, mainly due to net loss of CARIZON, our joint venture initiative with Volkswagen Group.

Fair Value Changes of Preferred Shares and Other Financial Liabilities

Our fair value changes of preferred shares and other financial liabilities decreased by 28.5% from RMB6,655.4 million in 2022 to RMB4,760.4 million in 2023, due to changes in the valuation of our Company.

Income Tax Benefits

Our income tax benefits increased by 18.8% from RMB4.3 million in 2022 to RMB5.1 million in 2023 as we accumulated tax losses carried forward to be realized.

Loss for the Year

As a result of the foregoing, we recorded loss for the year of RMB8,720.4 million and RMB6,739.1 million in 2022 and 2023.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenue

Our revenue increased by 94.1% from RMB466.7 million in 2021 to RMB905.7 million in 2022, primarily due to the expansion of our customer base as well as increased spendings from our existing customers.

- ***Product solutions.*** Our revenue from the sales of product solutions increased by 53.5% from RMB208.1 million in 2021 to RMB319.3 million in 2022, primarily due to a well-established customer base of tier-one suppliers and OEMs that allows us to boost the sales of product solutions. In particular, leveraging such strong customer base, we are able to (i) scale deployment of our solutions with mass production of our OEM customers' vehicles, (ii) integrate our product solutions with more vehicle models from our OEM customers, and (iii) sell more advanced solutions and more components from our offering to our OEM customers. Furthermore, we also attract new customers to adopt our product solutions, which further drives revenue growth.

- ***License and services.*** Our license and services revenue increased significantly by 138.4% from RMB202.1 million in 2021 to RMB481.8 million in 2022, primarily driven by an increase in the number of contracts with customers. We attracted a number of new customers who contributed license and services revenue. We also generated additional license and services revenue from existing customers.

Our revenue from non-automotive solutions amounted to RMB56.6 million and RMB104.5 million in 2021 and 2022, respectively.

Cost of Sales

Our cost of sales increased by 104.8% from RMB135.7 million in 2021 to RMB278.0 million in 2022, primarily due to (i) an increase of cost of sales for product solutions by 84.8% from RMB65.5 million in 2021 to RMB121.0 million in 2022, (ii) an increase of cost of sales for license and services by 264.6% from RMB16.1 million in 2021 to RMB58.7 million in 2022 and (iii) an in increase in cost of sales from non-automotive solutions by 81.5% from RMB54.1 million in 2021 to RMB98.2 million in 2022.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased significantly from RMB331.0 million in 2021 to RMB627.7 million in 2022.

Our gross profit margin remained relatively stable at 70.9% in 2021 and 69.3% in 2022, resulting from the changes in mix of our revenue sources and their respective gross profit margins.

- ***Product solutions***. Our gross profit margin from product solutions decreased from 68.5% in 2021 to 62.1% in 2022, primarily because we adopted a more competitive pricing strategy on our early generation of product solutions to gain market share.

- ***License and services.*** Our gross profit margin from license and services decreased from 92.0% in 2021 to 87.8% in 2022 as a result of relatively higher costs incurred to provide customized services for our customers in 2022.

Our gross profit margin for non-automotive solutions increased from 4.3% in 2021 to 6.0% in 2022 because we raised our pricing for non-automotive solutions.

Research and Development Expenses

Our research and development expenses increased by 64.4% from RMB1,143.6 million in 2021 to RMB1,879.9 million in 2022, primarily due to an increase in employee benefit expenses paid to our research and development personnel. As our revenue continues to grow and we increasingly focus on research and development efficiency, our research and development expenses as a percentage of revenue decreased from 245.0% in 2021 to 207.6% in 2022.

Administrative Expenses

Our administrative expenses increased by 17.2% from RMB319.0 million in 2021 to RMB373.9 million in 2022, which was primarily due to an increase in employee benefit expenses paid to employees performing administrative functions to support our business. As our revenue continues to grow and we increasingly focus on administrative efficiency, our administrative expenses as a percentage of revenue decreased from 68.3% in 2021 to 41.3% in 2022.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 41.2% from RMB211.4 million in 2021 to RMB298.5 million in 2022, which was primarily due to an increase in personnel hired to promote our new and existing solutions to customers. As our revenue continues to grow and we increasingly focus on sales and marketing efficiency, our selling and marketing expenses as a percentage of revenue decreased from 45.3% in 2021 to 33.0% in 2022.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets increased by 155.8% from RMB5.1 million in 2021 to RMB13.0 million in 2022, primarily due to our business expansion that leads a corresponding increase in loss allowance for our trade receivables.

Other Income

Our other income increased significantly from RMB14.5 million in 2021 to RMB43.7 million in 2022, primarily due to an increase in financial subsidies from RMB10.8 million in 2021 to RMB30.5 million in 2022 as well as an increase in tax refund attributable to VAT refund based on government policies to support businesses.

Other Losses, Net

We incurred other losses, net, of RMB1.7 million in 2021 and RMB238.1 million in 2022, primarily because we recorded net foreign exchange losses of RMB264.7 million in 2022 resulting from foreign exchange rate fluctuations.

Operating Loss

As a result of the foregoing, we recorded operating loss of RMB1,335.3 million and RMB2,132.0 million in 2021 and 2022, respectively.

Net Finance Income

In 2021 and 2022, we had net finance income of RMB11.6 million and RMB97.0 million, respectively, driven by an increase in interest income from financial assets held for cash management purposes.

Share of Results of Investments Accounted for Using the Equity Method

Our share of net losses of investments accounted for using the equity method increased by 1,255.7% from RMB2.5 million in 2021 to RMB34.3 million in 2022, driven by the loss of associates and joint ventures that we invested in.

Fair Value Changes of Preferred Shares and Other Financial Liabilities

Our fair value changes of preferred shares and other financial liabilities increased by 771.1% from RMB764.0 million in 2021 to RMB6,655.4 million in 2022 due to changes in the valuation of our Company.

Income Tax Benefits

Our income tax benefits decreased from RMB26.7 million in 2021 to RMB4.3 million in 2022 as we utilized part of our accumulative tax losses carried forward in 2022.

Loss for the Year

As a result of the foregoing, we recorded loss for the year of RMB2,063.6 million and RMB8,720.4 million in 2021 and 2022.

DISCUSSION OF SELECTED ITEMS FROM OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected items from our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
ASSETS			
Non-current assets			
Property, plant and equipment	123,866	220,945	433,261
Right-of-use assets	170,984	258,357	217,369
Deferred tax assets	79,944	88,916	99,967
Intangible assets	197,440	319,075	302,906
Investments accounted for using the equity method	27,082	64,034	1,107,659
Financial assets at fair value through profit or loss	46,338	68,838	80,825
Restricted cash	5,512	8,564	8,098
Prepayments and other non-current assets	32,279	62,819	85,713
Total non-current assets	**683,445**	**1,091,548**	**2,335,798**
Current assets			
Inventories	113,912	363,532	790,898
Prepayments and other current assets	282,992	206,452	136,729
Trade and note receivables	169,355	420,672	541,091
Term deposits	1,284,293	1,204,365	—
Restricted cash	12,856	2	709,716
Cash and cash equivalents	8,050,034	6,608,657	11,359,641
Total current assets	**9,913,442**	**8,803,680**	**13,538,075**
Total assets	**10,596,887**	**9,895,228**	**15,873,873**
LIABILITIES			
Non-current liabilities			
Lease liabilities	77,266	154,176	112,346
Borrowings	—	12,515	112,844
Other non-current liabilities	7,570	15,652	61,954
Total non-current liabilities	**84,836**	**182,343**	**287,144**

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
Current liabilities			
Trade payables	8,040	3,822	11,164
Contract liabilities	5,546	63,079	24,875
Lease liabilities	38,248	50,615	52,010
Employee benefit obligations	242,418	304,333	384,042
Accruals and other payables	270,525	278,245	540,444
Preferred shares and other financial liabilities at fair value through profit or loss	18,341,195	26,451,328	39,239,578
Total current liabilities	**18,905,972**	**27,151,422**	**40,252,113**
Total liabilities	**18,990,808**	**27,333,765**	**40,539,257**

Assets

Property, Plant and Equipment

Our property, plant and equipment primarily consist of computer and electronic equipment, leasehold improvements, vehicles and vehicle devices, office furniture and equipment, and construction in progress. The following table sets forth the breakdown of our property, plant and equipment as of the dates indicated.

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
Property, plant and equipment			
Computers and electronic equipment	81,365	119,852	178,673
Leasehold improvements	18,472	30,010	19,132
Vehicles and vehicle devices	16,664	24,966	34,385
Office furniture and equipment	2,488	4,418	3,773
Construction in progress	4,877	41,699	197,298
Total	**123,866**	**220,945**	**433,261**

Our property, plant and equipment increased from RMB123.9 million as of December 31, 2021 to RMB220.9 million as of December 31, 2022 and further to RMB433.3 million as of December 31, 2023, primarily due to procurement of computers and electronic equipment as we expand our operations and addition of construction in progress attributable to the construction of a new office building.

Right-of-use Assets

Our right-of-use assets mainly represent our lease of office premises and land use right. Our right-of-use assets increased from RMB171.0 million as of December 31, 2021 to RMB258.4 million as of December 31, 2022, primarily attributable to an increase in our lease of office premises. Our right-of-use assets further decreased to RMB217.4 million as of December 31, 2023, primarily attributable to depreciation of existing leases without significant lease addition.

Deferred Tax Assets

We recognize deferred tax assets based on estimates that is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilized. Our deferred tax assets are offset when there is a legally enforceable right to offset current income tax recoverable against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Our deferred tax assets increased from RMB79.9 million as of December 31, 2021 to RMB88.9 million as of December 31, 2022, and further to RMB100.0 million as of December 31, 2023, primarily attributable to accumulative tax losses to be utilized.

Intangible Assets

Our intangible assets consist primarily of licensed technology and computer software. Our intangible assets were RMB197.4 million, RMB319.1 million and RMB302.9 million as of December 31, 2021, 2022 and 2023, respectively. We typically procure intangible assets at the beginning stage of the development cycle for each generation of our automotive solutions. Throughout the Track Record Period, the change in the carrying value of our intangible assets was affected by the procurement and amortization of our licensed technologies.

Investments Accounted for Using the Equity Method

Our investments accounted for using the equity method represent investments related to our associates and joint ventures. Our investments accounted for using the equity method were RMB27.1 million, RMB64.0 million and RMB1,107.7 million, respectively, as of December 31, 2021, 2022 and 2023. The substantial change in 2023 was primarily driven by the formation of a joint venture, CARIZON, with Volkswagen Group. See Note 13 of the Accountant's Report in Appendix I to the Document.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss consist of our investments in equity securities of unlisted companies in which we hold minority interest. Our financial assets at fair value through profit or loss increased from RMB46.3 million as of December 31, 2021 to RMB68.8 million as of December 31, 2022, and further to RMB80.8 million as of December 31, 2023. The changes were primarily due to changes in valuation of unlisted companies that we invested in. See Note 3.3 of the Accountant's Report in Appendix I to the Document.

We have been in the past, and expect to continue, prudently evaluating and considering a wide array of potential investments in emerging businesses that are complementary to our business to implement our long-term growth strategy and develop our solutions. We select our investment targets based on the underlying industry, the target's technology capabilities, the target's business and financial performance and the synergy between the target and us. The maximum exposure at the end of the reporting period is the carrying amount of these investments. We have managers in charge of purchasing, monitoring and adjusting our investments, evaluating the risk associated and our liquidity, preparing analysis and reporting to the management team periodically.

Prepayments and Other Assets

The following table sets forth the breakdown of our prepayments, other current assets and other assets as of the dates indicated.

	As of December 31,		
	2021	**2022**	**2023**
	(RMB in thousands)		
Prepayments and other assets			
Non-current:			
Rental deposits	13,359	17,067	16,856
Prepayments for property, plant and equipment	16,151	6,266	12,826
Prepayments for intangible assets	142	4,027	2,824
Other receivables	2,627	2,058	1,544
Prepayments for construction in progress	—	33,401	61
Prepaid bonuses	—	—	51,602
Prepayments and other non-current assets	32,279	62,819	85,713
Current:			
Prepayments for suppliers	221,118	154,152	65,284
Prepaid bonuses	—	—	26,370
Input VAT to be deducted	61,449	32,169	23,345
Amounts due from a related party	—	—	18,383
Other receivables	348	6,843	2,356
Rental and other refundable deposits	80	399	1,332
Commitment derivative	—	13,017	—
Less: loss allowance	(3)	(128)	(341)
Prepayments and other current assets	282,992	206,452	136,729
Total prepayments and other assets	**315,271**	**269,271**	**222,442**

Our non-current portion of prepayments and other assets include (i) rental deposits, (ii) prepayments for property, plant and equipment, (iii) prepayments for intangible assets, (iv) other receivables, (v) prepayments for construction in progress and (vi) prepaid bonuses. Our non-current portion of prepayments and other assets increased from RMB32.3 million as of December 31, 2021 to RMB62.8 million as of December 31, 2022 primarily driven by our prepayments for construction in progress for our office building in Shanghai. It subsequently increased to RMB85.7 million as of December 31, 2023 primarily driven by prepaid bonuses.

Our current portion of prepayments and other assets include (i) prepayments for suppliers, (ii) prepaid bonuses, (iii) input VAT to be deducted, (iv) amounts due from a related party, (v) other receivables, (vi) rental and other deposits and (vii) commitment derivative. Our current portion of prepayments and other assets amounted to RMB283.0 million, RMB206.5 million and RMB136.7 million as of December 31, 2021, 2022 and 2023, respectively. The decrease in the current portion of our prepayments and other assets during the Track Record Period was primarily due to (i) a decrease in prepayment for suppliers as we made relatively large amounts of prepayments in 2021 and 2022 for supply chain management purposes, (ii) a decrease in input VAT to be deducted reflecting temporary government refunds on input VAT tax in the midst of COVID-19 pandemic eligible for certain businesses, partially offset by an increase in amounts due from a related party reflecting our support for CARIZON during its establishment phase, the amount of which is expected to be settled prior to the [**REDACTED**]. In addition, our commitment derivative decreased from RMB13.0 million as of December 31, 2022 to nil as of December 31, 2023 due to the derecognition of commitment derivative upon the issuance of convertible loan in 2023.

Inventories

Our inventories primarily consist of (i) finished goods, which primarily consist of processing hardware that is in final testing stage, (ii) working in progress, which primarily consists of processing hardware that is in the early stage of manufacturing, and (iii) raw materials, which primarily consist of electronic components and materials.

The following table sets forth the breakdown of our inventories as of the dates indicated.

	As of December 31,		
	2021	**2022**	**2023**
	(RMB in thousands)		
Inventories			
Finished goods	61,842	100,675	359,755
Working in progress	57,208	267,271	431,649
Raw materials	11,845	11,309	22,763
Contract fulfillment costs	159	1,687	1,455
Inventories, gross	**131,054**	**380,942**	**815,622**
Less: allowance for impairment	(17,142)	(17,410)	(24,724)
Total inventories	**113,912**	**363,532**	**790,898**

Our inventories increased from RMB113.9 million as of December 31, 2021 to RMB363.5 million as of December 31, 2022 and further to RMB790.9 million as of December 31, 2023 primarily driven by (i) our strategic decision to increase our inventory level to meet the growing downstream demands for processing hardware from customers and (ii) our strategy to further accumulate and store a secure supply of inventory to counteract the cyclical nature of the automotive industry, especially the global auto-part supply shortage in 2021 and 2022.

As of December 31, 2021, 2022 and 2023, we recorded allowance for impairment of inventories of RMB17.1 million, RMB17.4 million and RMB24.7 million, respectively. Inventories are stated at the lower of cost and net realizable value. Inventory cost mainly comprises bill of materials for processing hardware and peripheral devices. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. We assess impairment to inventories from time to time during the Track Record Period and may make provision to write down our inventories to the net realizable value if the inventories become expired or damaged, or their prices went down, and their realizable value substantially decreases.

The following table sets forth our inventory turnover days for the Track Record Period:

	For the Year Ended December 31,		
	2021	2022	2023
Inventory turnover days[1]	192	313	461

Note:

(1) Calculated using the average of opening balance and closing balance of the inventories for such year divided by cost of sales for the relevant year and multiplied by the number of days during such year.

In line with our strategy to secure supply of inventory to counteract the cyclical nature of the automotive industry, our inventory turnover days increased from 192 days in 2021 to 313 days in 2022 and further to 461 days in 2023.

As of January 31, 2024, RMB36.0 million, accounting for 4.6% of the RMB790.9 million inventories as of December 31, 2023, had been subsequently utilized.

Trade and Note Receivables

Our trade and note receivables primarily represent (i) trade receivables in relation to our ordinary course of business and (ii) note receivables in relation to payments from our customers in the form of bank acceptance notes. The following table sets forth a breakdown of our trade and note receivables by nature as of the dates indicated.

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
Trade receivables			
Independent third parties	169,332	336,385	504,820
Related parties	8,390	38,440	76,190
Note receivables	2,350	68,666	3,434
Total trade and note receivables, gross	180,072	443,491	584,444
Less: Loss allowance	(10,717)	(22,819)	(43,353)
Total trade and note receivables, net	**169,355**	**420,672**	**541,091**

Our trade and note receivables increased from RMB169.4 million as of December 31, 2021 to RMB420.7 million as of December 31, 2022, and further to RMB541.1 million as of December 31, 2023. The increase throughout the Track Record Period was primarily due to the expansion of our business operations that leads to higher trade receivables. We recorded RMB68.7 million note receivables as of December 31, 2022 because we accepted bank acceptance notes from some customers in 2022 and all such notes have been cashed in 2023.

As of December 31, 2021, 2022 and 2023, we recorded loss allowance for trade and note receivables of RMB10.7 million, RMB22.8 million and RMB43.4 million, respectively. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with us and indicators of severe financial difficulty. We have performed impairment analysis on trade and note receivables to measure the expected credit losses, and we believe that we have made sufficient impairment allowance on trade receivables during the Track Record Period. For details on impairment provisions for trade and note receivables, see Note 3.1(b)(ii) to the Accountant's Report set out in Appendix I to this Document.

The following table sets forth the aging analysis of our trade and note receivables as of the dates indicated.

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
Up to six months	131,741	381,618	451,029
Six months to one year	19,416	25,306	71,117
Over one year	28,915	36,567	62,298
Total	**180,072**	**443,491**	**584,444**

The following table sets forth the turnover days of our trade and note receivables for the years indicated.

	As of December 31,		
	2021	2022	2023
Total trade and note receivables turnover days	122	119	113

Note:

(1) Trade and note receivables turnover days for a year equal the average of the opening and closing trade and note receivables balance (net of allowance) divided by revenue for the relevant year and multiplied by the number of days during such year.

Our trade and note receivables turnover days decreased from 122 days in 2021 to 119 days in 2022, and further to 113 days, as a result of our management of trade receivables and enhanced collection efforts.

As of January 31, 2024, RMB112.8 million, or 20.9% of our trade and note receivables as of December 31, 2023 had been subsequently settled.

Term Deposits

Our term deposits were RMB1,284.3 million, RMB1,204.4 million and nil, respectively, as of December 31, 2021, 2022 and 2023. Our term deposits are denominated in USD and were cleared to nil as of December 31, 2023, primarily due to maturity of term deposits at year end in accordance with our cash management plan.

Restricted Cash

Our restricted cash was RMB18.4 million, RMB8.6 million and RMB717.8 million, respectively, as of December 31, 2021, 2022 and 2023. The substantial increase in restricted cash as of December 31, 2023 resulted primarily from restricted cash held pursuant to certain financial restrictive clause in relation to the convertible loan from CARIAD.

Cash and Cash Equivalents

Our cash and cash equivalents were RMB8,050.0 million, RMB6,608.7 million and RMB11,359.6 million, respectively, as of December 31, 2021, 2022 and 2023. The fluctuation of our cash and cash equivalents positions at each year end was primarily due to the use of cash to support operating activities and cash outflows from investing activities. For details, see "— Liquidity and Capital Resources — Cash Flow."

Liabilities

Lease Liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements. We recorded non-current lease liabilities of RMB77.3 million, RMB154.2 million and RMB112.3 million, respectively, as of December 31, 2021, 2022 and 2023. We recorded current lease liabilities of RMB38.2 million, RMB50.6 million and RMB52.0 million, respectively, as of December 31, 2021, 2022 and 2023.

Borrowings

Our borrowings represent loans from a commercial bank in China. Our borrowings increased from nil as of December 31, 2021 to RMB12.5 million as of December 31, 2022 and further to RMB112.8 million as of December 31, 2023, mainly due to additional bank loans obtained for office building construction purposes.

Other non-current liabilities

Our other non-current liabilities increased from RMB7.6 million as of December 31, 2021 to RMB15.7 million as of December 31, 2022 and further to RMB62.0 million as of December 31, 2023, mainly due to an increase in financial subsidies granted that would be subsequently recognized as other income.

Trade Payables

Our trade payables primarily include payables for certain third-party service fees incurred during the ordinary course of our business. Our trade payables are relatively small as compared to our overall business scale primarily because we typically prepay or pay upon order for suppliers who provide essential inventories or services. Our trade payables amounted to RMB8.0 million, RMB3.8 million and RMB11.2 million as of December 31, 2021, 2022 and 2023, respectively.

The following table sets forth the aging analysis of our trade payables as of the dates indicated.

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
Up to six months	7,752	3,435	10,647
Six months to one year	18	33	262
Over one year	270	354	255
Total trade payables	**8,040**	**3,822**	**11,164**

The following table sets forth our trade payables turnover days for the years indicated.

	As of December 31,		
	2021	2022	2023
Total payables turnover days	22	8	6

Note:

(1) Trade payables turnover days is calculated using the average of the opening and closing trade payables balance divided by cost of sales for the relevant year and multiplied by the number of days during such year.

Our Directors confirm that we did not have any material defaults on payments of trade payables during the Track Record Period and up to the Latest Practicable Date.

As of January 31, 2024, RMB8.8 million, or 78.9% of our trade payables as of December 31, 2023 had been subsequently settled.

Contract Liabilities

Our contract liabilities primarily comprise payments received in advance of revenue recognition from automotive solutions. Our contract liabilities amounted to RMB5.5 million as of December 31, 2021, RMB63.1 million as of December 31, 2022, and RMB24.9 million as of December 31, 2023.

As of January 31, 2024, RMB18.6 million, or 74.8% of our contract liabilities as of December 31, 2023 had been subsequently settled.

Employee Benefit Obligations

Our employee benefit obligations represent wages and salaries, housing funds, medical insurances and other social insurance, employee leave entitlement, bonus plans and termination benefits. Our employee benefit obligations increased from RMB242.4 million as of December 31, 2021 to RMB304.3 million as of December 31, 2022, and further to RMB384.0 million as of December 31, 2023 in line with our business expansion.

Accruals and Other Payables

Accruals and other payables consist of (i) tax liabilities, and (ii) other payables, including payables for purchase of intangible assets and third-party services in relation to our research and development activities, payables to certain former investors for preferred shares repurchase before Track Record Period, and others. The following table sets forth our accruals and other payables as of the dates indicated.

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
Accruals and other payables			
Tax liabilities	13,794	32,444	142,618
Other payables			
Payables for purchase of intangible assets	165,068	142,413	171,559
Payables for third-party service fees and deposit	49,753	74,539	173,775
Payables for construction in progress	12	3,812	30,803
Accrued warranty liabilities	2,500	2,490	3,768
Payables to certain former investors for preferred shares repurchase before Track Record Period	9,433	10,304	583
Others	29,965	12,243	17,338
Total accruals and other payables	**270,525**	**278,245**	**540,444**

Our accruals and other payables remained relatively stable at RMB270.5 million as of December 31, 2021 and RMB278.2 million as of December 31, 2022. Our accruals and other payables increased from RMB278.2 million as of December 31, 2022 to RMB540.4 million as of December 31, 2023, primarily due to (i) an increase in tax liabilities from RMB32.4 million as of December 31, 2022 to RMB142.6 million as of the same date in 2023 and (ii) an increase in payables for third-party service fees and deposit from RMB74.5 million as of December 31, 2022 to RMB173.8 million as of the same date in 2023, primarily driven by manufacturing of certain discretionary prototype processing hardware supplied by Supplier A to support our research and development. For details on the background and transaction amount of Supplier A, see "Business — Our Suppliers."

Preferred Shares and Other Financial Liabilities at Fair Value through Profit or Loss

Our preferred shares and other financial liabilities at fair value through profit or loss primarily consist of preferred shares and convertible loan. See Note 28 of the Accountant's Report included in Appendix I to this Document. As of December 31, 2021, 2022 and 2023, we recorded preferred shares and other financial liabilities at fair value through profit or loss of RMB18,341.2 million, RMB26,451.3 million and RMB39,239.6 million, respectively. Preferred shares and other financial liabilities at fair value through profit or loss will increase as our valuation increases. Upon the [**REDACTED**], such preferred shares will be reclassified from financial liabilities to equity as a result of the automatic conversion into ordinary shares.

Current Assets and Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of January 31,
	2021	2022	2023	2024
	(RMB in thousands)			
				(Unaudited)
Current assets				
Inventories	113,912	363,532	790,898	765,179
Prepayments and other current assets	282,992	206,452	136,729	184,331
Trade and note receivables	169,355	420,672	541,091	647,139
Term deposits	1,284,293	1,204,365	—	966,568
Restricted cash	12,856	2	709,716	713,986
Cash and cash equivalents	8,050,034	6,608,657	11,359,641	10,306,729
Total current assets	**9,913,442**	**8,803,680**	**13,538,075**	**13,583,932**
Current liabilities				
Trade payables	8,040	3,822	11,164	7,226
Contract liabilities	5,546	63,079	24,875	5,427
Lease liabilities	38,248	50,615	52,010	54,085
Employee benefit obligations	242,418	304,333	384,042	410,529
Accruals and other payables	270,525	278,245	540,444	304,100
Preferred shares and other financial liabilities at fair value through profit or loss	18,341,195	26,451,328	39,239,578	39,357,030
Total current liabilities	**18,905,972**	**27,151,422**	**40,252,113**	**40,138,397**
Net current liabilities	**(8,992,530)**	**(18,347,742)**	**(26,714,038)**	**(26,554,465)**

Our net current liabilities increased from RMB8,992.5 million as of December 31, 2021 to RMB18,347.7 million as of December 31, 2022, primarily due to the increase in current liabilities as well as the decrease in current assets. The increase in current liabilities was primarily attributable to an increase in preferred shares and other financial liabilities at fair value through profit or loss from RMB18,341.2 million as of December 31, 2021 to RMB26,451.3 million as of December 31, 2022, as a result of fair value of our business. The decrease in total current assets was primarily attributable to a decrease in our cash and cash equivalents from RMB8,050.0 million as of December 31, 2021 to RMB6,608.7 million as of December 31, 2022, as a result of use of cash to support our overall operations.

Our net current liabilities increased from RMB18,347.7 million as of December 31, 2022 to RMB26,714.0 million as of December 31, 2023, primarily because the increase in our current liabilities outpaced the increase in our current assets. The increase in our current liabilities was primarily attributable to an increase in preferred shares and other financial liabilities at fair value through profit or loss from RMB26,451.3 million as of December 31, 2022 to RMB39,239.6 million as of December 31, 2023 as a result of fair value of our business. Such an increase was partially offset by an increase in cash and cash equivalents from RMB6,608.7 million as of December 31, 2022 to RMB11,359.6 million as of December 31, 2023.

Our net current liabilities decreased from RMB26,714.0 million as of December 31, 2023 to RMB26,554.5 million as of January 31, 2024, primarily due to decrease of accruals and other payables, partially offset by increase of preferred share and other financial liabilities at FVPL.

KEY FINANCIAL RATIO

The following table sets forth our key financial ratios as of the dates or for the years indicated.

	For the year ended December 31,		
	2021	2022	2023
Revenue growth	N/A	94.1%	71.3%
Gross profit growth	N/A	89.6%	74.3%
Gross margin	70.9%	69.3%	70.5%

See "— Description of Selected Items of Our Consolidated Statements of Profit or Loss."

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, we relied on capital contributions by our shareholders as the major sources of liquidity. We also generated cash from our sales of automotive solutions. After the [**REDACTED**], we intend to finance our future capital requirements through equity financing activities and debt financing activities in a balanced manner. We do not anticipate any changes to the availability of financing to fund our operation in the future. As our business develops and expands, we expect to improve our operating cash flows through increasing sales revenue of existing commercialized solutions, launching new solutions, optimizing cost structure and improving operating efficiency.

Cash Flows

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

	For the Year Ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
Net cash used in operating activities	(1,111,016)	(1,557,285)	(1,744,508)
Net cash used in investing activities	(1,384,168)	(214,506)	(667,286)
Net cash generated from financing activities	6,299,413	212,412	7,218,868
Net increase/(decrease) in cash and cash equivalents	3,804,229	(1,559,379)	4,807,074
Cash and cash equivalents at the beginning of the year	4,296,055	8,050,034	6,608,657
Effects of exchange rate changes on cash and cash equivalents	(50,250)	118,002	(56,090)
Cash and cash equivalents at the end of the year	**8,050,034**	**6,608,657**	**11,359,641**

Operating Activities

In 2023, our net cash used in operating activities was RMB1,744.5 million, which was primarily attributable to our loss before income tax of RMB6,744.1 million, as adjusted by non-cash and non-operating items, which primarily comprised (i) fair value changes of preferred shares and other financial liabilities of RMB4,760.4 million, (ii) share based payments of RMB341.8 million, (iii) elimination of unrealized profits and losses from downstream transactions of RMB297.3 million and (iv) amortization of intangible assets of RMB228.3 million. The amount was further adjusted by changes in working capital, primarily including increase in restricted cash of RMB709.2 million and increase in inventories of RMB434.7 million, partially offset by increase in other payables of RMB260.7 million.

In 2022, our net cash used in operating activities was RMB1,557.3 million, which was primarily attributable to our loss before income tax of RMB8,724.7 million, as adjusted by non-cash and non-operating items, which primarily comprised (i) fair value changes of preferred shares and other financial liabilities of RMB6,655.4 million, (ii) net foreign exchange differences of RMB264.7 million and (iii) share based payments of RMB173.7 million. The amount was further adjusted by changes in working capital, primarily including increase in inventories of RMB249.9 million and increase in trade and note receivables of RMB264.2 million, partially offset by increase in other operating liabilities of RMB64.4 million.

In 2021, our net cash used in operating activities was RMB1,111.0 million, which was primarily attributable to our loss before income tax of RMB2,090.2 million, as adjusted by non-cash and non-operating items, which primarily comprised (i) fair value changes of preferred shares and other financial liabilities of RMB764.0 million and (ii) share-based payments of RMB196.4 million. The amount was further adjusted by changes in working capital, primarily including increase in operating assets of RMB233.1 million and increase in inventories of RMB88.9 million, partially offset by increase in other operating liabilities of RMB141.3 million.

Investing Activities

Net cash used in investing activities was RMB667.3 million in 2023, which was primarily due to (i) payments for financial assets at fair value through profit or loss of RMB4,399.8 million, (ii) purchase of investments accounted for using the equity method of RMB1,453.0 million, and (iii) placement of term deposits of RMB367.6 million, partially offset by (i) proceeds from sale of financial assets at fair value through profit or loss of RMB4,410.1 million, and (ii) term deposits matured of RMB1,596.9 million.

Net cash used in investing activities was RMB214.5 million in 2022, which was primarily due to (i) payments for financial assets at fair value through profit or loss of RMB4,948.7 million, (ii) placement of term deposits of RMB3,791.4 million, and (iii) payment of intangible assets of RMB352.8 million, partially offset by (i) proceeds from sale of financial assets at fair value through profit or loss of RMB4,944.1 million, and (ii) term deposits matured of RMB4,201.3 million.

Net cash used in investing activities was RMB1,384.2 million in 2021, which was primarily due to (i) payments for financial assets at fair value through profit or loss of RMB1,305.4 million and (ii) placement of term deposits of RMB1,291.8 million, partially offset by (i) proceeds from sale of financial assets at fair value through profit or loss of RMB1,295.6 million, and (ii) term deposits matured of RMB155.4 million.

Financing Activities

Net cash generated from financing activities was RMB7,218.9 million in 2023, which was due to proceeds from issues of preferred shares liabilities of RMB7,188.6 million.

Net cash generated from financing activities was RMB212.4 million in 2022, which was primarily due to proceeds from issues of preferred shares liabilities of RMB254.8 million, and partially offset by principal elements of lease payments of RMB41.3 million.

Net cash generated from financing activities was RMB6,299.4 million in 2021, which was primarily due to proceeds from issues of preferred shares liabilities of RMB6,348.2 million, and partially offset by principal elements of lease payments of RMB32.2 million.

Working Capital Sufficiency

Our Directors are of the opinion that, taking into account the following financial resources available to us described below, we have sufficient working capital for our present requirement and for at least the next 12 months from the date of this Document:

- cash and cash equivalents;
- available equity financing and bank facilities; and
- the estimated net [**REDACTED**] from the [**REDACTED**].

After making reasonable inquiries of our management about our working capital, nothing has come to the Joint Sponsors' attention that would reasonably cause the Joint Sponsors to cast doubt on the Directors' view.

CAPITAL EXPENDITURES

Our capital expenditures primarily include our property, plant and equipment, land use right and intangible assets. The following table sets forth our capital expenditures for the years indicated.

	For the Year Ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
Payments for land-use right, property, plant and equipment	174,213	196,450	259,446
Payments for intangible assets	49,817	352,765	194,526
Total	**224,030**	**549,215**	**453,972**

We expect to finance our capital expenditures through our cash and cash equivalents, our existing bank borrowings and the net [**REDACTED**] from the [**REDACTED**]. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, our results of operations and financial condition, our business plans, market conditions and various other factors. See also "Future Plans and Use of [**REDACTED**] — Use of [**REDACTED**]."

INDEBTEDNESS

The following table sets forth the breakdown of financial indebtedness as of the dates indicated.

	As of December 31,			As of January 31,
	2021	2022	2023	2024
	(RMB in thousands)			
				(unaudited)
Current				
Lease liabilities	38,248	50,615	52,010	54,085
Preferred shares and other financial liabilities at FVPL	18,341,195	26,451,328	39,239,578	39,357,030
Non-current				
Lease liabilities	77,266	154,176	112,346	106,508
Borrowings	—	12,515	112,844	143,498
Total	**18,456,709**	**26,668,634**	**39,516,778**	**39,661,121**

Lease Liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements. See also "— Discussion of Selected Items from our Consolidated Statements of Financial Position — Liabilities — Lease liabilities."

Borrowings

Our borrowings represent bank loans from a commercial bank in China. See also "— Discussion of Selected Items from our Consolidated Statements of Financial Position — Liabilities — Borrowings."

As of January 31, 2024, we had bank facilities of RMB701.0 million which remained unutilized.

Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt, and there was no breach of any covenant during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Preferred Shares and Other Financial Liabilities at Fair Value through Profit or Loss

Our preferred shares and other financial liabilities at fair value through profit or loss primarily consist of preferred shares and convertible loan. See also "Discussion of Selected Items from our Consolidated Statements of Financial Position — Liabilities — Preferred Shares and Other Financial Liabilities at Fair Value through Profit or Loss."

If we were to be required to redeem all such preferred shares, the aggregate redemption price shall be (i) 100% of each series stated issue price with a compounded rate of ten percent (10%) per annum return, plus (ii) any accrued but unpaid dividends on each applicable preferred shares. As of December 31, 2023, we had a total of 7,798,405,226 preferred shares issued and outstanding and the aggregate consideration at which our preferred shares issued equaled US$2,360.8 million. If we were required to redeem our convertible loan, the aggregate redemption price shall be the outstanding principal amount of the convertible loan, together with all accrued and unpaid interest. For details, see Note 28 to the Accountant's Report set out in Appendix I to this Document. The redemption of the preferred shares and convertible loan, if triggered, could have a negative impact on our cash and liquidity position and financial condition. See "Risk Factors — Risks Related to our Financial Prospects — Fair value changes of preferred shares and other financial liabilities and related valuation uncertainty may materially affect our results of operations and financial condition."

Except as discussed above, we had no outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of January 31, 2024, being our indebtedness statement date. After due and careful consideration, our Directors confirm that there had been no material change in our indebtedness since January 31, 2024, and up to the Latest Practicable Date.

CONTRACTUAL OBLIGATIONS

Capital Expenditure Related Commitments

Our capital commitments are related to capital expenditure on property, plant and equipment as well as intangible assets to be incurred but not yet recorded as liabilities. Our capital expenditure contracted for but not yet incurred as of December 31, 2021, 2022 and 2023 was RMB22.7 million, RMB87.7 million and RMB72.1 million, respectively. We expect to satisfy our capital commitments using cash from operations, net [**REDACTED**] to be received from the [**REDACTED**] and bank borrowings available to us.

Operating Commitments

Our operating commitments are related to our inventory investment. Our operating expenditure contracted for but not yet incurred as of December 31, 2021, 2022 and 2023 was RMB158.3 million, RMB362.5 million and RMB188.7 million, respectively. We expect to satisfy our operating commitments using our cash and cash equivalents, net [**REDACTED**] to be received from the [**REDACTED**] and bank borrowings available to us.

Commitments In Respect Of Associates and Joint Ventures

Our commitments in respect of associates and joint ventures are capital contribution commitments undertaken by us in accordance with related investment agreements or joint venture agreements. Such commitments as of December 31, 2021, 2022 and 2023 was RMB14.8 million, RMB15.3 million and RMB1,730.9 million, respectively. We expect to satisfy our commitments in respect of associates and joint ventures using our cash and cash equivalents, net [**REDACTED**] to be received from the [**REDACTED**] and bank borrowings available to us.

CONTINGENT LIABILITIES

As of December 31, 2021, 2022 and 2023, we did not have any material contingent liabilities. As of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors confirm that all material related party transactions during the Track Record Period were conducted on an arm's-length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance. Except for the RMB18.4 million amounts due from CARIZON primarily reflecting financial supports provided to CARIZON during its early establishment phase, all our related party transactions are trade in nature. See "Discussion of Selected Items from Our Consolidated Statements of Financial Positions — Assets — Prepayments and Other Assets." We expect to settle the non-trade related party balance with CARIZON prior to the [**REDACTED**]. See Note 34 of the Accountant's Report included in Appendix I to this Document.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to a variety of market and other financial risks, including market risk, credit risk and liquidity risk. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market Risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our subsidiaries. Our functional currency outside mainland China are USD whereas the functional currency of the subsidiaries operating in mainland China is RMB. We manage our foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and trying to minimize these exposures through natural hedges, wherever possible.

Interest rate risk

Except for cash and cash equivalents, restricted cash, term deposits and long-term borrowings, the Group has no significant interest-bearing assets and borrowings.

The directors of our Company do not anticipate significant impact to interest-bearing assets and borrowings resulted from the changes in interest rate because the interest rates of the above-mentioned interest-bearing assets and borrowings are not expected to change significantly.

Price risk

Our exposure to equity securities price risk arises from investments in unlisted companies held by our Group and classified in the balance sheet as at fair value through profit or loss (FVPL).

To manage its price risk arising from investments in equity securities, we diversify our portfolio. Each investment is managed by our senior management individually. The sensitivity analysis is performed by our management, see Note 3.3 of Appendix I for details.

We also mainly invest in low-risk wealth management products and the proposed investment must not interfere with our daily operation and business prospects. We make investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macroeconomic environment, general market conditions and the expected profit or potential loss of the instrument.

Credit Risk

Credit risk arises from cash and cash equivalents, restricted cash, term deposits, as well as trade and note receivables and other receivables. The carrying amount of each class of the above financial assets represents our Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage risk from trade and note receivables, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. Trade and notes receivables have been grouped based on shared credit risk characteristics and aging to measure the expected credit losses. Trade and note receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade and notes receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences.

Cash and cash equivalents, restricted cash, term deposits are mainly placed with reputable Chinese and international financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss is not material.

Liquidity Risk

We intend to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents and term deposits or to retain adequate financing arrangements to meet our liquidity requirements.

DIVIDENDS

We have never declared or paid regular cash dividends on our Shares. Any declaration and payment as well as the amount of dividends will be subject to our Articles and the Cayman Companies Act. Our board of directors has the discretion to pay interim dividends and to recommend to Shareholders to pay final dividends, and will depend on a number of factors, including our earnings, capital requirements, overall financial condition and contractual restrictions. As advised by our Cayman Islands legal counsel, under the Cayman Companies Act, a Cayman Islands company may pay a dividend out of either profits and/or a share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. In light of our accumulated losses as disclosed in this Document, it is unlikely that we will be eligible to pay a dividend out of our profits in the foreseeable future. We may, however, pay a dividend out of our share premium account unless the payment of such a dividend would result in our Company being unable to pay our debts as they fall due in the ordinary course of business. There is no assurance that dividends of any amount will be declared to be distributed in any year.

If we pay dividends in the future, in order for us to distribute dividends to our Shareholders, we will rely to some extent on any dividends distributed by our PRC subsidiaries. Any dividend distributions from our PRC subsidiaries to us will be subject to PRC withholding tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. See "Risk Factors — Risks Related to Doing Business in China" in this Document.

DISTRIBUTABLE RESERVES

As of December 31, 2023, our Company had no retained earnings that were available for distribution to our equity shareholders.

[**REDACTED**]

The total [**REDACTED**] payable by our Company are estimated to be approximately HK$[**REDACTED**] (or approximately RMB[**REDACTED**]) assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] (being the mid-point of our [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**]), accounting for approximately [**REDACTED**]% of gross [**REDACTED**]. Among such estimated total [**REDACTED**], (i) [**REDACTED**]-related expenses, including [**REDACTED**], are expected to be approximately HK$[**REDACTED**], and (ii) non-[**REDACTED**]-related expenses of approximately HK$[**REDACTED**], comprising (a) fees and expenses of legal advisers and Reporting Accountant of approximately HK$[**REDACTED**] and (b) other fees and expenses of approximately HK$[**REDACTED**].

Among the [**REDACTED**] expenses payable of HK$[**REDACTED**], HK$[**REDACTED**] is expected to be expensed through the statement of profit or loss and the remaining amount of HK$[**REDACTED**] is directly attributable to the issue of shares and deducted from equity. As of December 31, 2023, we incurred [**REDACTED**] of HK$[**REDACTED**] expensed through the statement of profit or loss and expected HK$[**REDACTED**] to be charged to the statement of profit or loss after the Track Record Period.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

[**REDACTED**]

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial, operational or trading position since December 31, 2023, being the date on which the latest audited consolidated financial information of our Group was prepared in Appendix I in this Document, and there had been no event since December 31, 2023 that would materially affect the information shown in the Accountant's Report set out in Appendix I to this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, except for the convertible loan entered into with Volkswagen Group wherein the termination of Dr. Yu's employment or controlling interest may trigger CARIAD's redemption right, there was no other circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules. For details of the convertible loan, please see "History, Reorganization and Corporate Structure — Convertible Loan."