You should carefully consider all of the information in this document, including the risks and uncertainties described below before making an investment in our H Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our **[REDACTED]** *could decline, and you may lose all or part of your investment.*

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date, unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in "Forward-looking Statements" in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our research and development efforts may not yield expected results.

Our technological capabilities and infrastructure are critical to our success. The industries in which we operate are subject to rapid technological changes and are evolving quickly in terms of technological innovation. We design and manufacture core EV systems and electronic components including systems relating to the battery, electric drive, electric control, in-vehicle operating, autonomous driving and smart cockpit. In 2019, 2020, 2021 and the three months ended March 31, 2022, our R&D expenses amounted to RMB358.3 million, RMB289.2 million, RMB740.0 million and RMB242.5 million, respectively. Our R&D expenses accounted for 306.4%, 45.8%, 23.6% and 12.2% of our total revenue for 2019, 2020, 2021 and the three months ended March 31, 2022, respectively.

We will continue to invest extensive resources in R&D in order to lead technological advances and remain competitive in the rapidly evolving EV industry. However, even if we are able to keep pace with changes in technology and develop new models, our previous models could become obsolete more quickly than expected, potentially reducing our return on investment. For example, in 2022, we introduced an oil-cooling electric drive system featuring better power efficiency. We expect to apply CTC technology in our upcoming mass-produced vehicle models, which leads to better performance including longer range and quicker acceleration. These innovative technologies may have inherent risks of having a short life in terms of their benefits over competing technologies, or may not be accepted by the market. Given the uncertain nature of R&D activities, there can be no guarantee that we will continue to achieve technological innovations and effectively commercialize such innovations. Consequently, even with substantial expenditure in relevant R&D activities, we may not generate corresponding returns, which may adversely affect our current market position. For example, we believe our modularized and cross-platform hardware and software with high adaptability across EV models, as well as high level of system interconnectivity are the key strengths that differentiate our smart EVs from those of the competitors. Any delay or obstruction in R&D in these aspects could materially and adversely affect our business, reputation, results of operations and prospects. Meanwhile, some of our competitors might perform better than or equally as well, even if they are not as vertically integrated, as us.

We have a limited operating history, which makes it difficult to evaluate our business and future prospects.

As we commenced our business operations in 2015, we have a limited operating history in most aspects of our business operations, including designing, developing, testing, manufacturing, marketing and selling our smart EVs and providing services. In 2019, we started production of the S01, our first mass-produced smart EV. We started production of our smart electric mini car, the T03, in 2020 and the C11, a mid-sized smart electric SUV, in 2021. In May 2022, we launched the C01 and expect to commence deliveries in the third quarter of 2022.

You should consider our business and prospects with regard to the risks and challenges we face as a new market player in our industry, including but not including but not limited to our ability to:

- design and produce smart EVs of consistent and reliable quality, with competitive features;
- enhance and optimize our proprietary smart EV technologies;
- optimize supply chain management;
- expand our sales and service network, including directly operated and channel partner stores;
- expand our customer base;
- provide engaging user interactions and a high-quality user experience;
- market our smart EVs and services effectively, and enhance our brand awareness;
- improve cost efficiency and economies of scale;
- operate our existing plants and establish new plants in a safe and efficient manner;
- deliver orders in a timely manner;
- attract, retain and motivate our employees; and
- expand into overseas markets.

If we fail to tackle any or all of these risks and challenges, our business may be materially and adversely affected. Our smart EVs are highly complex products that require ongoing maintenance and support. As a result, this may affect potential customers' choices if they are not convinced that our business will succeed or that our operations will continue. Likewise, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with us if they are not convinced that our business will succeed.

Our ability to manufacture and deliver automobiles of high quality and appeal to customers, on schedule, and on a large scale is unproven and still evolving.

The sustainability of our business depends largely on our ability to timely execute our plan to mass produce and deliver vehicles of high quality and appeal to customers. We have constructed our first production facility in Jinhua, Zhejiang province. The annual production capacity of Jinhua Plant is 200,000 units. Our Jinhua Plant will continue to produce the T03, C11 and our mid- to large-sized smart electric sedan C01. Our future operation and prospects depend on the successful expansion and maintenance of the Jinhua Plant as well as the successful construction and maintenance of the planned Hangzhou Plant. In addition, we need to effectively control costs at these production facilities. Given the size and complexity of this undertaking, it is possible that we may experience obstacles in further expanding production output, which may result in delays or cost overruns. Furthermore, we have limited experience in vehicle production to balance production volume and vehicle quality, and therefore cannot assure you that we will be able to achieve the targeted production volume of commercially viable vehicles on a timely basis, or at all.

Our continuous production and delivery of vehicles of high quality to achieve the targeted production volume are and will be subject to risks, including with respect to:

- lack of essential funding or cost overruns;
- delays or disruptions in our supply chain;
- quality control deficiencies;
- labor shortage;
- halted production imposed by the government in relation to power restriction policies; and
- non-compliance with environmental, workplace safety, and other relevant regulations.

Furthermore, we rely on third-party suppliers for the development and provision of many key components and materials used in our vehicles. If our suppliers experience any difficulties in providing us with supply of components and materials, we may experience delays in delivering vehicles. In mid-August of 2022, there were approximately 1,800 orders of the C11 placed before January 1, 2022 that had not been delivered to customers, mainly due to the supply shortage of certain components as well as the negative impacts on logistics of the resurgence of COVID-19 in China in the first half of 2022. We have reached satisfactory solution with customers for the great majority of such orders by the end of August 2022. Any delays in the production and delivery of T03, C11, C01 or future models, or in performing updates to existing models, could subject us to user complaints, which may materially and adversely affect our reputation, demand for our vehicles, business, results of operations and our growth prospects.

Our vehicles and smart technologies may contain faults and may not perform to customer expectations.

Our smart EVs offer smart functions, including autonomous driving and smart cockpit, to offer customers a smart mobility experience. We pay close attention to the preferences of our target customers in designing vehicles. However, it is not guaranteed that we will continue to develop such smart functions, perform in line with expectations, and make them more appealing to our target customers.

Our smart EVs may contain faults in design or defects from production that cause them to malfunction or require repairs, and cause certain features of our smart EVs to take longer than expected to become activated. The operation of our smart EVs is highly dependent on our proprietary software systems which are inherently complex. The software system may contain latent defects and errors, and our preventive or remedial measures, if any, may not be timely or to the customers' satisfaction. There can be no assurance that we will be able to detect and fix any defects in the vehicles prior to their delivery to consumers. Any defect or failure of our vehicles could be harmful to our business, reputation, results of operations and prospects.

China's NEV market is highly competitive, and demand for EVs may be cyclical and volatile.

China's NEV market is large yet competitive, and we have strategically focused on offering smart EVs for the mid- to high-end segment, with prices ranging from RMB150,000 to RMB300,000. We compete with ICE automakers that have penetrated the NEV segment, and NEV manufacturers. We may also in the future face competition from new entrants who will increase the level of competition. Our current and potential competitors may have more financial, technical, manufacturing, marketing or other resources than us, and may be able to devote significant resources to the design, development, manufacturing, distribution, promotion, sale and support of their products.

We expect competition in our industry to persist, given the surging demand and government incentives for alternative fuel vehicles, continuing globalization and consolidation in the global automotive industry. Factors affecting competition include but are not limited to brand recognition, product design, delivery timeline, product quality, development time, pricing, safety, energy efficiency, supply chain management, sales and marketing capabilities, distribution network, customer support, after-sales service and financing terms. There can be no assurance that we will compete successfully. Our competitors may introduce new vehicles that exceed the quality or performance of our products, or offer customer service that better meets the needs of potential customers, which could adversely impact our competitive position in the market. They may also offer vehicles or services at lower prices, which could negatively affect our sales and profitability. Increased competition may result in lower vehicle sales and higher inventories, which could lead to downward pressure on prices and adversely affect our business, financial condition, results of operations and prospects.

We recorded gross losses and net losses, and had negative net cash flows from operations in the past, which may continue in the future.

Our smart EVs and parts were in their early development stage. While we experienced significant business growth during the Track Record Period, we have not yet been profitable since our inception. Moreover, we incurred gross losses of RMB112.0 million, RMB319.6 million, RMB1,387.6 million and RMB529.5 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. We incurred net losses of RMB901.1 million, RMB1,100.1 million, RMB2,845.8 million and RMB1,042.2 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. We expect to continue incurring net loss in 2022 primarily due to our investments in (i) the R&D of our future models and smart EV technologies, and (ii) the expansion of our production facilities and sales and service network. We may not generate sufficient revenue or continue to incur substantial losses for a number of reasons, such as a lack of demand for our vehicles and increasing competition. We may also incur unforeseen expenses, or encounter difficulties, complications or delays in deriving revenue or achieving profitability.

In addition, we had net operating cash outflows of RMB674.7 million, RMB731.9 million, RMB1,018.6 million and RMB385.2 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. We plan to continue to invest in the expansion of sales and service network, R&D activities, increase in selling and marketing activities, recruitment of industry talent, and international expansion. However, it typically takes a long period of time to realize returns on such investments, if at all. As such, we expect to continue to have net cash outflows from operating activities in the near future.

Our negative operating cash flows could adversely affect our operations by reducing the amount of cash available to meet the cash needs for operating our business and funding our investments in technological innovation and business expansion. If our future operating cash flows fail to improve to a level to sufficiently cover our overall cash needs, we may plan to seek equity or debt financing to fund our operations in the future. Such financing might not be available to us promptly or on terms that are acceptable, or at all, and we may have limited financing channels due to our negative cash flow. If we fail to obtain the required additional financing before we are able to reach levels of revenue to meet our financial needs, we will need to delay, scale back or deviate from our business plan and may be forced to curtail or discontinue our operations. We may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected if we cannot obtain sufficient capital to meet our needs.

We depend on revenue generated from a limited number of smart EV models.

In 2021, our business depended substantially on the sales and success of the T03, which was our second mass-produced smart EV in the market before the C11. We started delivering the C11, our third mass-produced smart EV, in October 2021. As of March 31, 2022, we had delivered 11,756 units of the C11. We launched the C01, our fourth model with expected delivery in the third quarter of 2022.

To cater for varied consumer preferences, we plan to continually introduce new models to enrich our product portfolio, as well as upgrade and unveil new versions of existing smart EV models. We target to launch seven new BEV models by 2025, at a pace of one to three models every year, covering sedans, SUVs and MPVs in various sizes. In addition, we also plan to launch the EREV version of these new models based on our proprietary EREV technology, concurrently or subsequently, to broaden our target audience to include customers with different needs and preferences. To the extent our smart EV portfolio does not meet customer expectations, or cannot be produced in accordance with our projected timelines and cost and volume targets, our future sales may be adversely affected. Given that for the foreseeable future our business will depend on a limited number of vehicle models, to the extent that a particular model is not well received by the market, our sales volume could be materially and adversely affected.

We may be subject to risks associated with autonomous driving technologies.

Through Leapmotor Pilot, we provide autonomous driving functionalities, and plan to continue to update and improve our autonomous driving technologies. Our C11 is equipped with Leapmotor Pilot 3.0, which provides 360-degree vision and 22 autonomous driving features including NAP. Autonomous driving technologies are subject to risks and from time to time there have been accidents associated with such technologies. The safety of autonomous driving technologies depends partly on user interaction, and users may not be accustomed to using such technologies. To the extent that accidents associated with our autonomous driving systems occur, we could be subject to liability, government scrutiny and further regulatory oversight, which may adversely impact our reputation, demand for our vehicles, financial condition and growth prospects. Furthermore, accidents or defects caused by third parties' autonomous driving technologies may negatively affect public perception, or result in regulatory restrictions, with respect to autonomous driving technologies.

Our R&D in autonomous driving technologies may be subject to regulatory restrictions. As the law evolves, autonomous driving technologies also face considerable regulatory uncertainty to keep pace with the rapidly evolving nature of the technology itself, which may be beyond our control and anticipation. Our autonomous driving systems may not meet evolving regulatory requirements, which will require us to redesign, modify or update our autonomous driving hardware and related software systems. See "Regulatory Overview — Regulations Relating to Intelligent Connected Vehicles and Autonomous Driving."

Our industry is rapidly evolving and may be subject to unforeseen changes. Developments in alternative technologies or improvements in the ICE may materially and adversely affect the demand for our smart EVs.

China's EV market is rapidly evolving and may develop beyond our expectations. The regulatory framework governing the industry is constantly evolving and may remain uncertain for the foreseeable future. As our industry and our business develop, we may need to modify our business model or change our products and services. These changes may not achieve expected results, which could have a material and adverse effect on our results of operations and prospects.

Developments in alternative fuel technologies, such as ethanol and fuel cells, or improvements in fuel economy of ICE, could have a material and adverse effect on our business and prospects that we cannot currently anticipate. We may fail to respond successfully to changes in alternative fuel technologies and market conditions. As the core systems and architecture of our EVs cannot be easily adapted to support alternative fuel technologies, we may be required to devote additional resources to the development of alternative fuel technologies, systems and vehicles, if we consider it is necessary in the future, which may not produce the desired results. The development of alternative fuel technologies could result in a change in the competitive landscape of the overall NEV market, and our current market position could be adversely affected as competition increases. These could seriously harm our competitive position, business growth and financial condition.

Our business is dependent on the strengths and market acceptance of our Leapmotor brand. If we fail to maintain and enhance our brand, or if we incur excessive expenses in this regard, our business, results of operations and prospects may be materially and adversely affected.

Our business and financial performance are heavily dependent on our ability to develop, maintain and strengthen the Leapmotor brand. If we do not continue to develop, maintain and strengthen our brand, we may lose the opportunity to improve our brand awareness and build a critical mass of customers. Promoting our brand will likely depend significantly on our ability to provide high-quality smart EVs. In addition, we expect that our ability to develop, maintain and strengthen the Leapmotor brand will depend heavily on the success of our sales and marketing efforts. For example, since 2020, we have opened a number of stores strategically located in high-traffic commercial areas, such as shopping malls, which we believe can enable us to raise our brand awareness and increase sales conversion. We also advertise our smart EVs through various online channels, including a number of vertical media and social media platforms. While we seek to optimize resource allocation through the careful selection of sales and marketing channels, such efforts may not achieve the desired results. To promote our brand, we may be required to adjust our branding practices, including utilizing traditional media, offline advertising and online media platforms, which could substantially increase sales and marketing expenses. During the Track Record Period, our selling expenses amounted to RMB131.1 million, RMB154.9 million, RMB427.9 million and RMB162.4 million, accounting for 112.1%, 24.5%, 13.7% and 8.2% of our revenue in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. However, we cannot assure you that these activities will be successful or that we will be able to achieve the desired promotional effect. If we fail to develop and maintain a strong brand, our business, prospects, financial condition and operating results will be materially and adversely impacted.

If incidents, such as self-ignition and road accidents, occur or are perceived to have occurred, whether or not such incidents are by our fault, we could be subject to adverse publicity which could be detrimental to our reputation and brand image. See "— We may become subject to product liability claims, or choose to or be compelled to undertake product recalls or take other similar actions, which could adversely affect our brand image, business and results of operations." In addition, we do not have complete control over the third parties with whom we collaborate, such as channel partners and service providers, whose misconduct may expose us to negative publicity. Our smart EVs are also evaluated and reviewed by third parties from time to time. Any negative reviews that compare us unfavorably with our competitors could adversely affect consumers' perceptions of our smart EVs. Given the popularity of social media, any negative publicity, regardless of the factual accuracy, could quickly proliferate and harm consumer perceptions and confidence in our brand.

We rely on domestic and global suppliers to provide certain components of our smart EVs. Our suppliers may fail to deliver such components as required in terms of time, cost, quality and quantity.

We may encounter component shortages resulting from delay in delivery, unsatisfactory quality, or production disruption of our suppliers. We procure raw materials and key components from suppliers located both domestically and globally, including but not limited to steel, battery cells, electrical components, and various vehicle components such as seats and tires. We currently procure some of the components from single-source suppliers. If our suppliers are unable to supply or delayed in supplying these components, or if the supply agreements are terminated, it may be difficult to procure alternative supplies in a timely manner. Any disruption in the supply of components could temporarily interrupt the production of our smart EVs until we are able to establish alternative supplies or to source sufficient quantities of the relevant components from other existing suppliers. However, it may be time-consuming and costly to identify alternative suppliers for certain highly customized components for our smart EVs or to develop our own alternatives. In the first half of 2022, we experienced shipping delays for certain components of the water-cooling electric drive systems, such as current sensors and high voltage connectors, which were procured from overseas suppliers. This delay had a negative impact on deliveries of the previous version of the C11. In December 2021, we upgraded the water-cooling electric drive system on all versions of the C11, including the Deluxe and Premium editions, to the next-generation oil-cooling electric drive system which has better performance. As a result, such delay did not materially affect our operation. As our business continue to expand, failure to source replacement parts in a timely manner could materially delay the delivery of our smart EVs, which could have a material adverse effect on our business and results of operations.

Our suppliers may fail to comply with applicable laws and regulations, or they may be involved in product liability claims or incidents of negative publicity. If any of these events occur, customers may lose confidence in our smart EVs that use components from the relevant suppliers, and our brand image, business and results of operations may be adversely affected.

With our business expansion, we may from time to time significantly increase the production of our smart EVs, and order additional components from our suppliers within a relatively short time frame. Our suppliers may fail to satisfy our needs, and even if they could, they may not be able to provide such components in a timely manner and at favorable prices. If we cannot secure a qualified substitute supplier in a timely manner, or at all, we may experience significant disruption in the supply of essential components of our smart EVs and material delay in the delivery of our smart EVs, which may materially and adversely impact our business and results of operations. In addition, we regularly negotiate with existing suppliers to obtain discounts and avoid adverse changes in commercial terms, seek new suppliers for certain components with lower costs, and redesign certain components to lower their production costs. We currently rely on certain technologies of our suppliers to enhance the performance of our smart EVs, such as battery cells and semiconductors. Our operating results will suffer if we are unsuccessful in controlling and reducing supplier costs, in particular in the process of upgrading our existing vehicle models and introducing new vehicle models.

We expect to scale up our production as we introduce new models and new versions of existing models, which require us to control the procurement, warehousing and delivery of components to relevant production facilities with accuracy and efficiency. Where we fail to match the component procurement with our production needs, we may experience disruption in production, storage and delivery of our smart EVs, which could materially and adversely impact our business, financial condition and results of operations.

The global shortage in the supply of semiconductor chips and battery cells may disrupt our operations and adversely affect our business, results of operations, and financial condition.

Since October 2020, there has been a global shortage in the supply of semiconductors for automotive production resulting from the COVID-19 pandemic, increased demand for consumer electronics, and disruption in semiconductor production due to labor shortage and severe weather. We have been adversely impacted by this global semiconductor shortage. See "Business — Our Suppliers — Raw Materials, Parts and Components" for details. There is no assurance that we will be able to obtain sufficient quantities of semiconductors and components containing semiconductors for our operations at a reasonable cost, or at all. In addition, similar to other components, many of the processor chips and components used in our vehicles are currently purchased by us from single-source suppliers, although we retain the flexibility to obtain processor chips and components from multiple sources of suppliers. If suppliers of semiconductor chips and components are unable to meet our needs on acceptable terms, or at all, we may be required to switch to alternative suppliers, which could be time-consuming and costly. Accordingly, our production and delivery could be materially disrupted, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, our business is dependent on the continued supply of battery cells for the battery packs used in our smart EVs. The prices for the battery cells fluctuate, and their available supply may be unstable, depending on market conditions and global demand for the battery cells and the materials used in the battery cells, such as lithium, nickel, cobalt, and manganese. There has been a looming shortage of battery cells since mid-2020 as a result of the increase in global demand due to increased production of NEVs, rising demand for raw material of battery cells, and the disruption in the supply chain due to the COVID-19 pandemic. While we believe several sources of the battery cells are available for our battery packs, any disruption in the supply of battery cells from such suppliers could disrupt production of our smart EVs until replaced with a fully qualified alternative supplier. There can be no assurance that we would be able to successfully retain existing suppliers or find alternative suppliers on a timely basis, on acceptable terms or at all.

Our sales and service network is subject to a number of risks, and the long-term effectiveness has not been proven.

As of March 31, 2022, our sales and service network consisted of 24 directly operated stores and 312 channel partner stores. In 2019, 2020, 2021 and the three months ended March 31, 2022, the revenue from our directly operated stores was RMB42.1 million, RMB94.6 million, RMB532.8 million and RMB323.9 million, respectively, accounting for approximately 36.0%, 15.4%, 17.4% and 16.3% of our total revenue from sales of vehicles and parts, respectively. For the same periods, the revenue from channel partner stores was RMB74.9 million, RMB521.2 million, RMB2,526.0 million and RMB1,667.9 million, respectively, accounting for 64.0%, 84.6%, 82.6% and 83.7% of our total revenue from sales of vehicles and parts, respectively. We plan to further expand our sales and service network through a balanced combination of directly operated stores and channel partner stores. We may not achieve the desired results of increasing sales and enhancing our brand awareness in a cost-efficient manner with such expansion. We may need to invest significant amount of capital and management resources to operate existing directly operated stores and open new ones, and there can be no assurance that we will be able to improve the operational efficiency of our directly operated stores. The rate of expansion of our directly operated stores and channel partner stores may not fully meet our customers' expectations.

While our channel partnership model enables us to pursue an asset-light expansion strategy, such model is subject to a number of risks. We may not be able to identify, attract and retain a sufficient number of channel partners with the requisite experience and resources to operate these stores. Although we offer the same trainings and implement the same service standards for staff in both directly operated stores and channel partner stores, we do not have complete control over how our channel partners operate their businesses. If our channel partners and their staff fail to deliver high quality customer services, resolve customer complaints in a timely manner, or perform at a standard in accordance with the terms of our agreements or perform inconsistently with our business strategy, our brand image, reputation and end user relationship may be adversely affected. This may in turn expose us to negative publicity and adversely affect our business, financial condition and results of operations.

In addition, our agreements with certain channel partners are non-exclusive. While they are required to only sell our smart EVs in the Leapmotor-brand channel partner stores, they may operate other stores to sell vehicles of other brands. These channel partners may devote more resources to the stores outside of our sales and service network and may deviate from our sales and marketing initiatives. Furthermore, we have adopted uniform pricing policy and designated specific geographical region coverage to our channel partners to reduce the degree of competition between different channel partners. However, any significant growth in our sales to certain channel partners in the future, or changes to our sales and service network, may give rise to competition among our channel partners and increase the risk of cannibalization. Any such behavior may harm our business, prospects, financial condition and results of operations. Mismanagement of channel partners could result in the loss of customers and damage to our brand. Our channel partners may also face financial difficulties, including loss of regional market share, bankruptcy, store relocation or other disruptions to the business, which could harm our sales performance, and we may not be able to successfully address these challenges.

If we are unable to provide quality services, our business and reputation may be materially and adversely affected.

We offer customers with quality value-added services, such as home charger installation, free roadside assistance service, emergency rescue for power loss and mobility scooter service. We engage third party service providers to carry out certain offline after-sales services. Servicing EV is different from servicing ICE vehicles and requires specialized skills, including high voltage electrical system maintenance. There can be no assurance that our after-sales service arrangements will sufficiently address the customers' requirements to their satisfaction, or that we and the third party service providers will have sufficient resources to meet these service requirements promptly as the number of smart EVs we deliver increases. It is possible that our services may fail to meet customers' expectations, which could adversely affect our business, reputation and results of operations.

In addition, we have authorized maintenance service providers to offer repair services for the vehicles we sell. While this arrangement may increase the number of our service outlets without increasing too much operating costs, it may also reduce our direct control over after-sales repair and maintenance services. Their failure to provide high quality services would damage our reputation.

Furthermore, we plan to monetize software offerings to include additional premium features in the future, such as supplementary autonomous driving functions. If we fail to deliver the software offerings that meet customers' needs, or if we are unable to provide adequate service and receive the expected number of orders for such monetized offerings, our business, results of operations and financial condition would be materially and adversely affected.

We seek to engage customers continuously via online and offline channels. If we are unable to roll out and create a broad service network through our stores, service centers and online user community, covering both online and offline channels, customer satisfaction could be unfavorably affected. This in turn could materially and adversely affect our sales, results of operations and prospects.

Changes in government incentives or subsidies to support NEVs could adversely affect our business, financial condition and results of operations.

Our business has benefited from PRC government policies that are favorable to the growth of NEVs, as well as subsidies and economic incentives. For example, qualified purchasers of the S01, T03, C11 and C01 are eligible for subsidies from PRC central government and certain local governments. In addition, in certain cities, quotas restricting the purchase of ICE vehicles do not apply to EVs, thereby incentivizing customers to purchase EVs. Any reduction, elimination or unavailability of government subsidies and economic incentives caused by policy changes could adversely affect our business, financial condition and results of operations.

According to the Measure on the Parallel Administration of the Corporate Average Fuel Consumption and New Energy Vehicle Credits of Passenger Vehicle Enterprises (《乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法》), promulgated on September 27, 2017 and revised on June 15, 2020, NEV companies are allowed to sell automotive regulatory credits. See "Regulatory Overview — Favorable Policies Relating to New Energy Vehicles in China — Corporate Average Fuel Consumption and New Energy Vehicle Credits Scheme for Vehicle Manufacturers and Importers" for details. The PRC central government also provides funds and subsidies for certain local governments to support the roll out of a charging infrastructure, and other new regulations applicable to NEVs may be introduced. These policies are subject to certain limits as well as changes that are beyond our control, and we cannot assure you that future changes, if any, would be favorable to our business or financial condition. For instance, according to the Notice on Improving the Financial Subsidy Policies for the Promotion and Application of New Energy Vehicles (《關於完善新能源汽車推廣應用財政補貼政策的通知》) released on April 23, 2020, which was further confirmed on December 31, 2020 and December 31, 2021, the subsidies for NEV purchases from 2020 to 2022 will generally be lowered by 10%, 20% and 30%, respectively, based on the level of the previous year with limited exceptions in the area of public transport, and the total number of NEVs sold in China that will be entitled to such subsidies should be no more than two million each year. According to the latest policy issued on December 31, 2021, the subsidy policy for the purchase of NEVs in 2022 will be terminated on December 31, 2022, and that subsidy will no longer be granted to vehicles where car licenses are issued after December 31, 2022. In addition, we may have to control the operating costs and/or raise the prices of our existing vehicle models to remain profitable given the reduced subsidies, which may adversely impact our results of operations, demand for our vehicles, financial condition and our growth prospects.

During the Track Record Period, we generated revenue of nil, RMB15.5 million, RMB71.9 million and nil in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively, from the sales of automotive regulatory credits. Furthermore, we have received subsidies from some local governments in relation to the new smart EV production facility under construction in the Jinhua Plant. Any reduction or elimination of government subsidies and economic incentives as a result of policy changes, fiscal tightening or other factors may result in the diminished competitiveness of the EV industry generally or our smart EVs in particular. In addition, as we seek to increase revenue from vehicle sales, we may also experience an increase in receivables relating to government subsidies. Customers may refuse or delay in providing application information for government subsidies, and we may face difficulties in collecting the amount of subsidies from them. Any uncertainty or delay in the collection of government subsidies may also have an adverse impact on our financial condition.

We may also face increasing competition from overseas automakers due to changes in PRC government policies. On December 27, 2021, NDRC and MOFCOM promulgated the Special Administrative Measures for Entry of Foreign Investment (Negative List) (2021 Version), effective on January 1, 2022, which removed the restriction to foreign companies on the proportion of foreign ownership in the production of passenger cars, allowing the same foreign company to establish more than two joint ventures for manufacturing similar vehicle products. Under the current policies, foreign EV competitors could build wholly-owned production facilities in China without having a domestic joint venture partner, which could increase our competition and reduce our pricing advantage.

Our customers may cancel their orders despite the deposits and online confirmation.

Customers may cancel their orders for many reasons beyond our control, even after payment of deposit and online confirmation. The potentially long wait from the time an order is placed until the time the vehicle is delivered, and any delays beyond expected waiting time, may affect and ultimately change customers' decision to purchase. A significant number of orders may be canceled if we encounter delays in the deliveries of the T03, the C11, the C01 or future vehicle models. Such cancelations could harm our business, brand, financial condition, results of operations, and prospects.

The COVID-19 pandemic has adversely affected, and may continue to adversely affect, our results of operations.

Since January 2020, the COVID-19 outbreak has caused a significant impact on the global economy. In an effort to halt the outbreak in China, the PRC government placed significant restrictions on travel within China and closed certain production and business operations, and governments outside of China have halted or sharply curtailed the movement of people, goods and services to and from China. Moreover, the COVID-19 outbreak has become a global pandemic and affected regions outside of China, such as Europe and North America. We produce, market and sell our smart EVs in China. While most of our key suppliers are located in China, we procure certain automobile parts from overseas suppliers. If the COVID-19 pandemic continues for an extended period or worsens, it could materially and adversely impact our supply chain, sales and other aspects of our operations.

While we have resumed normal business operations, we have experienced certain disruptions in our operations as a result of the government-imposed suspensions in response to the COVID-19 pandemic in China. A substantial number of our offices and stores, as well as our production facilities, were closed for certain periods in the first quarter of 2020 as required by the PRC government. As a result of the COVID-19 resurgence, citywide restrictive measures were implemented in Shanghai from March to May 2022, and all of our directly operated stores and channel partner stores in Shanghai were temporarily closed during that time. While the pandemic had not materially and adversely affected our supply chain as of the Latest Practicable Date due to our advanced planning and effective supplier management, it has affected and may affect future delivery of components from certain suppliers that have suspended production. For example, due to the COVID-19 resurgence in a number of provinces in China, China took a variety of precautionary measures, such as travel restrictions, quarantines, remote working, cancellation of public events, and recommendations against travel for leisure, among others. As a result, we experienced a slowdown in production and certain delays in the transportation of our raw materials and parts since late 2021. From March to May 2022, certain suppliers in Shanghai had to temporarily halt the production and logistics arrangements of our raw materials and components, such as battery cells and semiconductor chips, due to the restrictive measures, which inevitably affected our production and delivery schedule in turn. We cannot assure you that our suppliers will not suspend their operations or become unable to provide sufficient components to us in the future if the COVID-19 pandemic continues or worsens. See "— We rely on domestic and global suppliers to provide certain components of our smart EVs. Our suppliers may fail to deliver such components as required in terms of time, cost, quality, and quantity."

Concerns about the COVID-19 pandemic and its potential impact on the Chinese and global economy have created uncertainty in the overall demand for automobile products, which could have negative implications for the demand of our smart EVs. The prolonged COVID-19 pandemic in certain overseas markets may adversely affect our expansion plan into international markets. At this point, we cannot accurately predict what effects these conditions would have on our business, which will depend on, among others, the ultimate geographic spread of the virus, the duration of the pandemic and the corresponding travel restrictions and business closures imposed by government authorities.

Our future growth is dependent upon consumers' willingness to adopt smart EVs.

The market for EVs is still rapidly evolving, characterized by changing technologies, prices and competitive landscape, government regulations and industry standards, and consumer demand and behaviors. Our future growth is dependent on the demand for, and upon consumers' willingness to adopt smart EVs.

Other factors that may influence the adoption of smart EVs, include:

- perceptions of EV quality, design and performance, particularly when adverse events or accidents related to the quality or safety of EVs occur, regardless of whether those vehicles are produced by us or other vehicle manufacturers;
- perceptions of vehicle safety in general, in particular safety issues that may be attributed to the use of advanced technologies, such as autonomous driving and lithium batteries;
- access to charging infrastructure, improvements in the fast-charging technology, standardization of EV charging systems and consumers' perceptions about convenience and cost for charging an EV;
- the decline of an EV's range resulting from battery deterioration over time;
- the availability of after-sales services for EVs;
- the availability of other types of EVs, including plug-in hybrid electric vehicles;
- improvements in the fuel economy of the ICE vehicles;
- developments in alternative fuels;
- availability of tax and other governmental incentives to purchase and operate EVs, such as government subsidies and free license plates, or future regulation requiring increased use of nonpolluting vehicles; and
- macroeconomic factors.

Any of the factors described above may refrain existing or potential customers from purchasing our smart EVs and using our services. If the market for EVs does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and results of operations will be affected.

Our business is subject to seasonal fluctuations.

Our operating results may vary significantly from period to period due to many factors, including seasonal ones that may have an effect on the demand for our smart EVs. Demand for new cars typically decline around the Chinese New Year holiday, while vehicle sales are generally higher in the fourth quarter. Our limited operating history makes it difficult for us to judge the exact nature or extent of the seasonality of our business. We may record significant increase in revenue when we commence mass delivery of a new smart EV model to fulfill customer orders accumulated in prior periods, but we may not be able to maintain our revenue at similar levels in subsequent years or periods.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases may materially and adversely affect our business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including COVID-19, avian influenza, severe acute respiratory syndrome, H1N1 influenza or Ebola virus, may materially and adversely affect our business, financial condition and results of operations. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business.

We are also vulnerable to natural disasters and other calamities because our production facilities, warehouses, stores and information systems are susceptible to damage or disruption from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks, or similar events. Any of the foregoing events may give rise to interruptions, damage to our property, delays in production, breakdowns, system failures, technology platform failures, or internet failures, which could result in disruptions to our business operations and adversely affect our business, financial condition and results of operations.

Any cyber-attacks, unauthorized access or control of our smart EVs' systems could result in loss of confidence in us and harm our business.

Our smart EVs contain complex information technology systems to support smart technological functions and to accept and install periodic OTA updates. We have designed, implemented and tested security measures intended to prevent unauthorized access to our information technology networks and smart EV technology systems.

However, hackers may attempt to gain unauthorized access to modify, alter and use such networks and systems. We encourage reporting of potential vulnerabilities in the security of our smart EVs, and we aim to remedy any reported and verified vulnerability. However, there can be no assurance that vulnerabilities will not be exploited in the future before they can be identified, or that our remediation efforts are or will be successful. Any cyber-attacks, unauthorized access, disruption, damage or control of our information technology networks or our smart EVs' systems, or any loss or leakage of data or information stored in our systems could result in legal claims or proceedings. In addition, regardless of their veracity, reports of cyber-attacks to our information technology networks or our smart EVs' systems or data, as well as other factors that may result in the perception that our information technology networks or our smart EVs' systems or data are vulnerable to hacking could negatively affect our brand and harm our business, prospects, financial condition and results of operation.

Actual or alleged failure to comply with data privacy and protection laws and regulations could damage our reputation and operating results, and discourage consumers from purchasing our smart EVs.

In recent years, privacy and data protection has become an increasing regulatory focus of government authorities across the world. The PRC government has enacted a series of laws, regulations and governmental policies for the protection of personal data in the past few years. We have adopted strict information security policies, and use a variety of technologies to protect the data we manage. We mainly collect and store data relating to the usage of our smart EVs, the autonomous driving system and smart cockpit system, as well as data collected through our sales and services channels. For the extent of customer information we collect, we obtain prior consent from our customers or rely on other legal basis in accordance with applicable laws and regulations. We implement access control and account authority control, and desensitize customer data. We then analyze such information to improve our technologies, products and services. For further information, see "Business — Cybersecurity, Data Privacy and Personal Information."

On August 20, 2021, the Standing Committee of the National People's Congress (the "**SCNPC**") issued the Personal Information Protection Law, taking effect from November 1, 2021, which clarifies the scope of application, the definition of personal information and sensitive personal information, the legal basis of personal information processing and the basic requirements of notice and consent. Among other compliance requirements, the Personal Information Protection Law requires that personal information processors shall obtain individual consent when processing sensitive personal information. The CAC issued Several Provisions on the Administration of Automobile Data Security (Trial) with effect from October 1, 2021, which reiterates an automobile data processor could process personal information and detailed requirements for such circumstances. The Several Provisions on the Administration of Automobile Data Security (Trial) clarify that (i) in carrying out personal information processing activities, the automobile data processor shall inform the individual of relevant information by conspicuous means and obtain the consent of the individual unless there are other circumstances in accordance with the provisions of laws and administrative regulations; (ii) in handling sensitive personal information, an automobile data processor shall also obtain individual consent, and meet specific requirements such as limiting the purpose of processing, confirming the state of collection and reminding termination of collection, or meet other requirements in accordance with laws, administrative regulations and mandatory national standards; and (iii) automobile data processor can collect biometric characteristic information such as fingerprint, voice print, face and heart rhythm only if it has the purpose and sufficient necessity to enhance driving safety. Since there are uncertainties regarding the interpretation and application of current regulations, such as the meaning of individual consent and the scope of "enhancing driving safety," we cannot guarantee that the laws or regulations will not be interpreted or implemented in ways that negatively affect us. In addition to the regulatory requirements, consumer attitude towards data privacy is also evolving, and consumer concerns about the extent to which their details collected by us may adversely affect our ability to gain access to data and improve our technologies, products and services.

On June 10, 2021, the SCNPC promulgated the PRC Data Security Law, which took effect in September 2021. The Data Security Law provides for a security review procedure for the data activities that may affect national security. On December 28, 2021, the CAC, together with other relevant administrative departments, jointly promulgated the revised Cybersecurity Review Measures (《網絡安全審查辦法》) with effect from February 15, 2022, according to which an online platform operator who possesses personal information of over one million users and intends for listing in a foreign country (國外上市) must be subject to the cybersecurity review. In the meantime, the Cybersecurity Review Measures grant the governmental authorities the discretion to initiate a cybersecurity review on any data processing activity if they deem such activity affects or may affect national security. Furthermore, on November 14, 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the "**Draft Data Security Regulations**"), which reiterate the circumstances under which data processors shall apply for cybersecurity review, including, among others, (i) the data processors who process personal information of at least one million users apply for listing in a foreign country (國外上市); and (ii) the data processors' listing in Hong Kong affects or may possibly affect national security. Under the aforementioned stipulation, there is no explicit explanation by the relevant authorities on whether Hong Kong should be included in the scope of "foreign country"(國外), according to the understanding on PRC laws and regulations by our legal advisor as to PRC data security law, Hong Kong does not fall within the scope of "foreign country." Moreover, the number of users whose personal information we process has not reached one million. Therefore, our legal advisor as to PRC data security law is of the view that we are not required to apply for a cybersecurity review. However, the Draft Data Security Regulations provide no further explanation or interpretation as to how to determine what constitutes "affecting national security." As such, there remain uncertainties of interpretation, application and enforcement of the evolving relevant laws and regulations, and future regulatory changes may impose additional restrictions. As of the Latest Practicable Date, the Draft Data Security Regulations had not been formally adopted.

We cannot predict the impact of the draft regulations, if any, at this stage, and we will pay close attention to and assess any development in the rule-making process. If the enacted version of the draft regulations mandate clearance of cybersecurity review and other specific actions to be completed by companies like us for the **[REDACTED]** or our future capital raising activities, or if we are subject to such ex officio cybersecurity reviews initiated by the government authorities, we may face uncertainties as to whether such clearance can be timely obtained, or at all. Failure to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, may prevent us from using certain network products and services and subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, and revoking relevant business permits or business licenses, among other sanctions. See "Regulatory Overview — Regulations Relating to Internet Information and Automotive Data Security."

Our legal advisor as to PRC data security law is of the view that we will be able to comply with the Cybersecurity Review Measures and the Draft Data Security Regulations, if implemented in their current forms, in all material aspects on the basis that (i) we have not been informed by any PRC governmental authority of any requirement when we filed to CSRC for approval for this [**REDACTED**]; (ii) we have not been subject to any material fines or administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to the infringement of cybersecurity and data protection laws and regulations; (iii) there is no material leakage of data or personal information or violation of cybersecurity and data protection and privacy laws and regulations by us which will have a material adverse impact on our business operations; (iv) there has been no material cybersecurity and data protection incidents or infringement upon the rights of any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of the knowledge of the Company, threatened against or relating to the Company; and (v) we have implemented comprehensive cybersecurity and data protection policies, procedures, and measures to ensure secured storage and transmission of data and prevent unauthorized access or use of data. As such, our Directors believe that the Cybersecurity Review Measures and the Draft Data Security Regulations will not have any material adverse effect on our business operations or the proposed [**REDACTED**]. As of the Latest Practicable Date, we had not received any data security-related enquiries and had not been subject to any notices, warnings, or sanctions imposed by any regulatory authorities due to cybersecurity concerns.

On August 16, 2021, the CAC, NDRC, MIIT, the Ministry of Public Security and the Ministry of Transport jointly issued the Several Provisions on the Management of Automobile Data Security (for Trial Implementation) (《汽車數據安全管理若干規定(試行)》) ("**Several Provisions on Automobile Data**"), which took effect on October 1, 2021. The Several Provisions on Automobile Data define the terms such as "automobile data", "automobile data processors", "personal information", "sensitive personal information" and "important data". Under the Several Provisions on Automobile Data, automobile data processors shall obtain individual consent for processing personal information or rely on other legal bases in accordance with applicable laws and regulations. Where the automobile data processors collect data containing images of people outside the vehicle and transmit the data out of the vehicle for the purpose of improving driving safety, such personal information shall be anonymized if it is not possible to obtain the consent of these people. In addition, important data shall be stored domestically, and the automobile data processor shall undergo a safety assessment by the CAC and relevant ministries of the State Council if such data needs to be provided outside China due to business needs. The Several Provisions on Automobile Data require automobile data processors of important data to (i) conduct risk assessment in accordance with the regulations and submit risk assessment reports to relevant departments at provincial levels; and (ii) report annually to such departments in relation to the information on automotive data security management.

As advised by our legal advisor as to PRC data security law, our policy on data collection and processing complies with the requirements in the Several Provisions on Automobile Data in all material aspects, on the basis that (i) we have implemented comprehensive data protection policies on personal information processing where it is stipulated that the collection and use of personal information shall be subject to customers' prior consent unless otherwise permitted by the laws; (ii) we inform our customers regarding our privacy policy of the situations where we process personal information inside the vehicle; (iii) we abide by such policies and personal information processing rules when we process customers' personal information; (iv) as with other major car manufacturers, we implement the general principle of in-vehicle data processing whenever it is technically feasible; and (v) we proactively monitor any regulatory development and adjust our policies and practices to comply with applicable regulations, including future regulations on in-vehicle data processing. In light of the above, our Directors believe that this provision will not have material adverse effect on our business operations.

We have adopted various measures, including management supervision and internal control system, to ensure compliance with privacy and data protection regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material claims, investigations or legal proceedings settled, pending or threatened for any material non-compliance with or violations of applicable PRC laws and regulations with respect to privacy and personal data protection. However, the laws and regulations regarding privacy and data protection in China are generally complex and evolving, with uncertainties as to the interpretation and application thereof. We may also become subject to additional or new laws and regulations regarding the protection of personal information or privacy-related matters in connection with our methods for data collection, analytics, storage and use. As such, we cannot assure you that our privacy and data protection measures are, and will be, always considered sufficient under applicable laws and regulations. Additionally, the integrity of our privacy and data protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyber-attacks. If we are unable to comply with the then applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failure could damage our reputation, deter existing and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences. Moreover, any failure to comply with applicable data laws and regulations, and any leakage of customer data by our channel partners, whether or not such incidents are by our fault, could subject us to adverse publicity, which could be detrimental to our reputation and brand image.

Interruption or failure of our information technology and communications systems could impact our ability to effectively provide our services.

We offer customers with a variety of features and services through our website and APP. In addition, certain smart EVs' features depend, to a certain extent, on connectivity to our information technology systems. As such, the availability and effectiveness of our services depend on the continued operation of our information technology and communications systems. Our systems are vulnerable to damage or interruption from, including but not limited to, fire, terrorist attacks, natural disasters, power loss, telecommunications failures, computer viruses or other attempts to harm our systems. Our data centers are also subject to break-ins, sabotage, and intentional acts of vandalism, and to potential disruptions. In the past, we have successfully blocked and prevented major cyber-attacks and hacking attempts, and thus these attempts did not have an adverse effect on our operations. However, some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. Any problems encountered by our data centers could result in lengthy interruptions in our services. In addition, our products and services are highly technical and complex and may contain errors or vulnerabilities, which could result in interruptions in our services or the failure of our systems.

We are subject to anti-corruption and anti-bribery and similar laws, and non-compliance with such laws can subject us to administrative, civil and criminal fines and penalties, collateral consequences, remedial measures and legal expenses, all of which could adversely affect our business, results of operations, financial condition and reputation.

We are subject to anti-corruption, anti-bribery and similar laws and regulations in various jurisdictions in which we conduct activities. We have direct or indirect interactions with officials and employees of government agencies and state-owned affiliated entities in the ordinary course of business. These interactions subject us to an increased level of compliance-related concerns. We have implemented policies and procedures designed to ensure compliance by us and our Directors, officers, employees, representatives, consultants, agents and business partners with laws and regulations. However, our policies and procedures may not be sufficient, and our directors, officers, employees, representatives, consultants, agents, and business partners could engage in improper conduct for which we may be held responsible.

Non-compliance with anti-corruption or anti-bribery laws and regulations could subject us to whistleblower complaints, adverse media coverage, investigations, and severe administrative, civil and criminal sanctions, collateral consequences, remedial measures and legal expenses, all of which could materially and adversely affect our business, results of operations, financial condition and reputation.

Our business depends substantially on the continuing efforts of our executive officers, key employees and qualified personnel, and our operations may be severely disrupted if we lose their services.

Our success depends substantially on the continuing efforts of our senior management and key employees. If one or more of our executive officers or key employees were unable or unwilling to continue their services with us, we might not be able to replace them easily, in a timely manner, or at all. As we build our brand and become more well-known, the risk of competitors or other companies poaching our talent may increase. Our industry is characterized by high demand and intense competition for management and R&D talents, in particular with those in the areas of electrification and smart technologies, and we cannot assure you that we will be able to attract or retain key personnel, qualified staff or other skilled employees who have a significant impact on our daily production and operation activities. In addition, because our smart EVs are based on a different technology platform from traditional ICE vehicles, individuals with sufficient training in smart EVs may not be available, and we will need to expend significant time and expense training the employees we hire. Furthermore, as our Company is relatively young, our ability to train and integrate new employees into our operations may not meet the growing demand of our business expansion, which may materially and adversely affect our ability to grow our business and results of operations.

If any of our senior management and key employees terminates his or her services with us, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train and retain qualified personnel. We had not maintained any "key person" insurance on our key personnel during the Track Record Period. If any of our senior management or key employees joins a competitor or forms a competing company, we may lose customers, know-how and key professionals and staff members. Each of our senior management and key employees has entered into a confidentiality agreement with a non-competition clause in it. We will also selectively sign non-compete agreements upon their termination of employment. However, if any dispute arises between our senior management or key employees and us, the non-competition provisions may not be enforceable, especially in China, where these senior management reside, on the ground that we have not provided adequate compensation to them for their non-competition obligations, which is required under relevant PRC laws.

We may become subject to product liability claims, or choose to or be compelled to undertake product recalls or take other similar actions, which could adversely affect our brand image, business and results of operations.

We may become subject to product liability claims, and our smart EVs may be subject to recalls in the future, which could harm our business, financial condition, results of operations, and prospects. The automotive industry experiences significant product liability claims, and we face an inherent risk of exposure to claims in the event our vehicles do not perform as expected or malfunction resulting in property damage, personal injury, or death. Our risks in this regard are particularly pronounced given that we have limited field experience of our vehicles. A successful product liability claim against us could require us to pay a substantial monetary compensation. Although our agreements with suppliers provide that they will indemnify us against any liability arising out of defective parts or products supplied by them, we may not be able to effectively enforce or collect these contractual obligations. Moreover, a product liability claim could generate substantial negative publicity about our vehicles and business and inhibit commercialization of our future vehicles, which would materially and adversely affect our brand, business, prospects, cash flows, and results of operations. Any insurance coverage might not be sufficient to cover all potential product liability claims. Any lawsuit seeking significant monetary damages may materially and adversely affect our reputation, business, financial condition, and results of operations.

In the future, we may, voluntarily or involuntarily, initiate a recall if any of our smart EVs, including any systems or parts sourced from our suppliers, is proved to be defective or non-compliant with applicable laws and regulations. Such recalls, whether voluntary or involuntary or caused by systems or components engineered or manufactured by us or our suppliers, could involve significant expenses and could adversely affect our brand image, business and results of operations. As of the Latest Practicable Date, to the best of our knowledge, we were not aware of any circumstances that may cause an imminent product recall.

If our vehicle owners modify our vehicles, the vehicle may not operate properly, which may create negative publicity and could harm our business.

Automobile enthusiasts may seek to modify our vehicles, including using third-party aftermarket products, to alter their appearance or enhance their performance, which could jeopardize our vehicle safety systems. We do not test, nor do we endorse, such modifications or third-party products. In addition, the use of improper external cabling or unsafe charging outlets can expose our users to injury from high voltage electricity. Such unauthorized modifications could reduce the safety of our vehicles and any accidents resulting from such modifications could result in negative publicity which would adversely affect our brand and consequently harm our business, financial condition, results of operations, and prospects.

The driving range of our smart EVs on a single charge may decline faster than the customer expects.

The decline in the driving range of our smart EVs on a single charge is principally affected by usage, time and charging patterns. As a result, a customer's heavy use of smart EV as well as a higher frequency in charging the battery can result in faster deterioration of the battery's ability to hold a charge, and the driving range of our smart EVs on a single charge may decline faster than the customer expects. If any of our vehicles fail to perform as expected, it may result in negative publicity and influence potential customers' decisions to purchase our smart EVs, which may adversely affect our ability to market and sell our smart EVs.

We may need to defend ourselves against claims for intellectual property infringement, which may be time-consuming and would cause us to incur substantial costs.

Entities or individuals, including our competitors, may hold or obtain patents, copyrights, trademarks, or other proprietary rights that could prevent, limit, or interfere with our ability to manufacture, use, develop, market or sell our vehicles or components, which could make it more difficult for us to operate our business. From time to time, we may receive communications from intellectual property right holders regarding their proprietary rights. Companies holding patents or other intellectual property rights may bring suits alleging infringement of such rights or otherwise assert their rights and urge us to obtain licenses to use such patents and intellectual property rights. Our applications and uses of trademarks relating to our design, software, or AI technology could be found to infringe existing trademark ownership and rights. In addition, if we or our employees are determined to have infringed a third party's intellectual property rights, we may be required to do one or more of the following:

- cease offering smart EVs or services that incorporate or use the challenged intellectual property;
- pay substantial damages;
- seek a license from the holder of the infringed intellectual property right, whose license may not be available on reasonable terms or at all;
- redesign our smart EVs or relevant services which would incur significant cost; or
- establish and maintain alternative branding for our smart EVs and services.

In the event of a successful claim of infringement against us and our inability to obtain a license to the infringed technology or other intellectual property right, our business, prospects, financial condition and results of operation could be materially and adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs, negative publicity and diversion of resources and management attention.

We may not be able to prevent others from unauthorized use of our intellectual properties, which could harm our business and competitive position.

We regard our trademarks, service marks, patents, domain names, trade secrets, proprietary technologies, and similar intellectual property as critical to our success. We rely on trademark and patent law, trade secret protection and confidentiality and license agreements with our employees and others to protect our proprietary rights.

We have invested significant resources to develop our own intellectual properties. Failure to maintain or protect these rights could harm our business. In addition, any unauthorized use of our intellectual properties by third parties may adversely affect our reputation, business and financial condition.

The interpretations of PRC intellectual property laws, regulations and rules are not always uniform, and enforcement of these laws, regulations and rules involves uncertainties. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive. We rely on a combination of patent, copyright, trademark, and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our intellectual properties, third parties may attempt to copy or otherwise obtain and use our intellectual property or seek court declarations that they do not infringe upon our intellectual property rights. Monitoring unauthorized use of our intellectual property is difficult and costly, and we cannot assure you that the steps we have taken or will take will prevent misappropriation of our intellectual property. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

We had net current liabilities and net liabilities in the past, which can expose us to liquidity risk, and such positions may recur if our profitability deteriorates in the future.

We had net current liabilities of RMB961.6 million as of December 31, 2020, which are mainly trade payables and amounts due to related parties. We had net liabilities of RMB1,229.0 million and RMB563.2 million as of December 31, 2019 and 2020, respectively, primarily due to (i) our borrowings, and (ii) financial instruments with preferred rights at amortized cost recorded as non-current liabilities. Such positions can expose us to the risk of shortfalls in liquidity. Any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our business, financial condition, results of operations and prospects. The positions of net current liabilities and net liabilities may recur if our profitability deteriorates in the future.

If we do not continue to receive preferential tax treatments, our results of operations may be materially and adversely affected.

During the Track Record Period, we benefited from government grants and preferential tax treatments, many of which are non-recurring in nature or are subject to periodic review. We recognized government grants of RMB23.5 million, RMB66.6 million, RMB66.3 million and RMB9.2 million in other income in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. For the same periods, we had preferential tax treatment amounting to RMB10.5 million, RMB18.0 million, RMB66.8 million and RMB29.0 million, respectively. See Notes 6 and 11 to the Accountant's Report in Appendix I and "Financial Information — Description of Key Components of Our Results of Operations — Income Tax Expense." There can be no assurance that we will continue to receive these preferential tax treatments. If we are unable to receive such treatment in the future, our results of operations may be materially and adversely affected.

We have granted share-based awards in the past under our share incentive plans and may continue to grant share-based awards in the future, which may result in increased share-based compensation expenses and have an adverse effect on our financial condition and results of operations.

We adopted the Employee Incentive Schemes for the purpose of granting share-based compensation awards to our officers, directors, employees and other eligible persons to recognize their contributions and motivate them to further contribute to our development. As of the Latest Practicable Date, 70,529,664 Shares were held by our employee shareholding platforms established for the Share Award Schemes, representing approximately 6.97% of the aggregate amount of the Shares in issue immediately before the completion of the [**REDACTED**]. We granted options to subscribe for an aggregate of 50,594,348 Shares under the Pre-[**REDACTED**] Share Option Scheme. As of the Latest Practicable Date, none of these options had been exercised and all of these options were outstanding. Our share-based expenses were RMB3.3 million, RMB42.6 million, RMB217.0 million and RMB73.0 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. We believe the granting of share-based compensation awards is of significant importance in attracting and retaining key personnel and employees, and we may continue to grant share-based compensation awards in the future. As a result, our expenses associated with share-based compensation may increase, which may have a material and adverse effect on our financial condition and results of operations.

Fluctuation in our financial assets at fair value through profit or loss may affect our results of operations and bring valuation uncertainty due to the use of unobservable inputs that require judgment and assumptions which are inherently uncertain.

Fluctuation in fair value change of our current financial assets at fair value through profit or loss, which primarily consist of the wealth management products issued by reputable commercial banks in China, may affect our results of operations. We made investments in wealth management products during the Track Record Period and recorded a fair value of RMB181.6 million, RMB76.0 million, RMB1,260.1 million and RMB301.3 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. We use significant unobservable inputs, such as expected rate of return, in valuing such financial assets. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. We are exposed to credit risk in relation to our investments in wealth management products, which may adversely affect the net changes in their fair value. We cannot assure you that market conditions and regulatory environment will create fair value gains on the wealth management products we invest in or that we will not incur any fair value losses on our investments in wealth management products in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected. See Note 21 to the Accountant's Report in Appendix I to this document.

If we fail to fulfill our obligations under our contracts with customers in respect of contract liabilities, our results of operations and financial condition may be adversely affected.

As of December 31, 2021 and March 31, 2022, our contract liabilities amounted to RMB35.0 million and RMB58.4 million, respectively. Our contract liabilities represent advance payments from our customers while the underlying embedded services have yet to be provided, including extended one-year or lifetime warranties, vehicle internet connection service, firmware over-the-air upgrades and free lifetime roadside assistance service. See "Financial Information — Discussion of Certain Key Balance Sheet Items — Contract Liabilities." If we fail to fulfill our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the purchase price we have received, which may adversely affect our cash flow and liquidity condition, our ability to meet our working capital requirements and our results of operations and financial condition. In addition, if we fail to fulfill our obligations under our contracts with customers, it may adversely affect our relationship with such customers, which may also affect our reputation, business and results of operations in the future.

We may be exposed to credit risk of trade and notes receivables.

Our trade and notes receivables primarily comprise government subsidies for NEV vehicles, deposits to lessors and the deposit for a single borrowing transaction. As of December 31, 2019, 2020, 2021 and the three months ended March 31, 2022, our trade and notes receivables amounted to RMB19.0 million, RMB233.2 million, RMB782.3 million and RMB986.0 million, respectively. We may not be able to collect all such trade and other receivables due to a variety of factors that are outside of our control, such as a long payment cycle and changes in government policies. In addition, if we fail to apply for government subsidies on behalf of vehicle buyers, we may face difficulties with collecting the amount of subsidies from them; see "— Changes in government incentives or subsidies to support NEVs could adversely affect our business, financial condition and results of operations." As increases in the amount of provisions made on our trade and other receivables are recorded as expenses on our results of operations, if we are not able to manage the credit risk associated with our trade and other receivables effectively, our results of operations may be adversely affected.

We may incur impairment losses for intangible assets, which may adversely affect our results of operations.

Our intangible assets comprised automotive manufacturing license, software, patents and research and development, which amounted to RMB17.9 million, RMB19.9 million, RMB419.9 million and RMB427.2 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. See Notes 2.8 and 16 to the Accountant's Report in Appendix I. Failure to to generate financial results commensurate with our intangible assets may adversely affect the recoverability of such intangible assets, and in turn result in impairment losses. Any significant impairment losses charged against our intangible assets could have a material adverse effect on our business, financial condition and results of operations.

As some of our leased properties have title defects and did not complete registration procedures at relevant authorities, we may be required to cease occupation and the use of such leased properties.

We lease the premises for manufacturing, R&D, directly operated stores, delivery and servicing centers and offices. We cannot assure you that we would be able to renew the relevant lease agreements without substantial additional cost or increase in the rental cost payable by us. If a lease agreement is renewed at a rent substantially higher than the current rate, or currently existing favorable terms granted by the lessor are not extended, our business and results of operations may be adversely affected. As of the Latest Practicable Date, the actual usage of some of the leased properties was inconsistent with the usage set out in the respective title certificates or relevant authorization documents. Our PRC Legal Advisor is of the view that we may not be able to lease, occupy and use such leased properties, if the local governmental authorities challenge the validity of the leases, resume the land use right or require us to restore the land to its original use. In addition, as of the Latest Practicable Date, lessors of seven of our leased properties had not provided us with valid title certificates or building permit, and the leases may not be valid as a result. Furthermore, as of the Latest Practicable Date, we had not yet completed the registration of 100 property lease contracts we entered into in the PRC. As advised by our PRC Legal Advisor, failure to complete the lease registration will not affect the validity of the lease agreements according to PRC law, but we may have a maximum penalty of RMB10,000 imposed on us for each unregistered lease if we fail to complete the registration of any of the lease agreements within due time as required by the competent PRC government authorities. The estimated aggregate maximum penalty is RMB1,000,000 with respect to the unregistered leases of properties leased by us. See "Business — Properties — Leased Properties."

Our limited insurance coverage could expose us to significant costs and business disruption.

We believe we maintain insurance policies in line with industry standards. However, we have limited insurance coverage for our products and business operations. We do not maintain any business interruption insurance or product liability insurance. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. In addition, we do not maintain keyman insurance or insurance policies covering damages to our information technology systems. If we were to incur substantial losses or liabilities due to fire, explosions, floods or other natural disasters, disruption in our network infrastructure, production facilities or business operations, or any material litigation, our results of operations could be materially and adversely affected. Our current insurance coverage may not be sufficient to prevent us from suffering any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

Certain of our subsidiaries may be required to obtain additional licenses or permits or make additional filings or registrations.

In order to operate our business, we need to obtain a series of licenses, permits and approvals, make filings or complete registrations according to relevant PRC laws and regulations. However, given the significant amount of discretion held by local PRC authorities in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control, we cannot guarantee you that we have obtained or will be able to obtain and maintain all requisite licenses, permits, filings and registrations.

We may from time to time be subject to claims, disputes, lawsuits and other legal and administrative proceedings.

We are susceptible to claims and various legal and administrative proceedings. Claims arising out of actual or alleged violations of law, breach of contract or torts could be asserted against us by customers, business partners, suppliers, competitors, employees or governmental entities in investigations and legal proceeding. Regardless of the merit of the particular claim, legal and administrative proceedings may be expensive, time-consuming or disruptive to our operations and distracting to management. In recognition of these considerations, we may enter into agreements to settle litigation and resolve such disputes. There is no assurance that such agreements can be obtained on acceptable terms or that litigation will not occur. These agreements may also significantly increase our operating expenses. During the Track Record Period and up to the Latest Practicable Date, there was no legal or administrative proceeding pending or threatened against us that could, individually or in the aggregate, have a material effect on our business, financial condition or results of operations. However, new legal or administrative proceedings and claims may arise in the future, which may cause us to incur defense costs, and our business and financial conditions could be materially and adversely affected.

We are subject to various environmental and safety laws and regulations that could impose substantial costs upon us and cause delays in building our production facilities.

As an automobile manufacturer, we are subject to a variety of environmental, health and safety laws and regulations, including the use, handling, storage and disposal of hazardous materials in the manufacturing process, and the operation of our production facilities. See "Regulatory Overview — Regulation Relating to Environmental Protection and Work Safety" for details. In addition, from time to time, the PRC government issues new regulations, which may require additional actions on our part to comply, including substantial investments in improving our environmental and safety measures.

As we continue to expand our business, we may be further required to obtain additional licenses or permits. These approvals, licenses and permits are granted upon satisfactory compliance with, among other things, the applicable laws and regulations in relation to work safety, environmental protection, fire safety and customs import, and are subject to examinations or verifications by relevant authorities and may be valid only for a fixed period of time, subject to renewal and accreditation. Complying with government regulations may require substantial expenses, and any non-compliance may expose us to liability. If the Jinhua Plant or any of our other future production facilities fails to comply with applicable regulations, we could be subject to substantial liability for clean-up efforts, personal injury or fines or be forced to close or temporarily cease the operations of the Jinhua Plant or other relevant production facilities. We may experience difficulties, delays or failures in obtaining and renewing the necessary approvals, licenses and permits for business operations. Any of these events could have a material adverse effect on our business, prospects, financial condition and results of operation.

Environmental, social, and governance matters may impact our business and reputation.

In addition to the importance of their financial performance, companies are increasingly being evaluated by their performance on a variety of environmental, social, and governance ("**ESG**") matters, which are considered to contribute to the long-term sustainability of their companies' performance. A variety of organizations measure the performance of companies on ESG topics, and the results of these assessments are widely publicized. In addition, investment in funds that specialize in companies that perform well in such assessments are increasingly popular, and major institutional investors have publicly emphasized the importance of ESG measures to their investment decisions. Topics taken into account in such assessments include, among others, the company's efforts and impacts, including impacts associated with suppliers or other partners, on climate change, ethics and compliance with law, diversity, and the role of the company's board of directors in supervising various sustainability issues.

In light of investors' increasing focus on ESG matters, there can be no assurance that we will manage such issues successfully, or that we will successfully meet society's expectations as to our proper role. Any failure or perceived failure by us in this regard could have a material adverse effect on our reputation and on our operation results, including the sustainability of our business over time.

If we upgrade our production equipment more quickly than expected, we may have to shorten the useful lives of any equipment to be retired as a result of any such update, and the resulting acceleration in our depreciation could negatively affect our financial results.

We have invested in our highly automated production facilities and adopted advanced equipment, including industrial robots, for our production process. We depreciate the cost of such equipment over their expected useful lives. However, production technology may evolve rapidly, and we may decide to upgrade our production process with cutting-edge equipment sooner than expected. Moreover, as our engineering and production expertise and efficiency increase, we may be able to manufacture our smart EVs by using less of our installed equipment. The useful life of any equipment that would be retired earlier than expected would be consequently shortened, causing the depreciation on such equipment to accelerate, and our results of operations could be negatively impacted.

If we fail to effectively manage our inventory, our results of operations and financial condition may be materially and adversely affected.

Our inventory primarily includes raw materials and finished goods. As of December 31, 2019, 2020, and 2021 and March 31, 2022, we had inventories of RMB165.2 million, RMB182.1 million, RMB749.5 million and RMB1,115.5 million, respectively. Maintaining an optimal level of inventory is important for the success of our business. We determine our level of inventory based on our experience, number of orders from customers and assessment of customer demand. We have implemented policy, under which we generally arrange production according to existing orders in order to maintain a relatively low level of inventory.

However, we may be exposed to inventory obsolescence and inventory shortage risks as a result of a variety of factors beyond our control, including but not limited to, changes of customer needs and the inherent uncertainty of the success of product launches. Inventory levels in excess of demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would have an adverse effect on our profitability. We recognized inventory write-downs of RMB58.7 million, RMB24.0 million, RMB244.6 million and RMB65.1 million in 2019, 2020, 2021 and for the three months ended March 31, 2022, respectively. In addition, if we underestimate the demand for our products, we may not be able to produce a sufficient number of products to meet such unanticipated demand, which could result in delays in the delivery of our products and harm our reputation.

Any of the above may materially and adversely affect our results of operations and financial condition. As we plan to continue to expand our product offerings, we may continue to face challenges in effectively managing our inventory.

Our warranty reserves may be insufficient to cover future warranty claims which could adversely affect our financial performance.

We offer competitive warranty terms. For customers who purchased the C11, we offered (i) a four-year or 120,000 km (whichever comes first) warranty, and (ii) an eight-year or 150,000 km (whichever comes first) warranty for battery, motor and electric control system. For customers who purchased the T03, we offered (i) a three-year or 120,000 km (whichever comes first) warranty, and (ii) an eight-year or 150,000 km (whichever comes first) warranty for battery, motor and electric control system. For customers who purchased the S01, we offered (i) a four-year or 120,000 km (whichever comes first) warranty, and (ii) an eight-year or 120,000 km (whichever comes first) warranty for battery, motor and electric control system. In addition, we offer a guarantee that the power battery will not decay by more than 20% during the warranty period of the vehicle. We generally make provisions for product warranty by reference to the sales volume and the expected unit costs for warranty services. We reevaluate the adequacy of the warranty accrual on a regular basis. As of March 31, 2022, our accrued warranty expenses amounted to RMB137.5 million. We cannot assure you that such reserves will be sufficient to cover future claims. We could, in the future, become subject to significant and unexpected warranty claims, resulting in significant expenses, which would in turn materially and adversely affect our business, prospects, financial condition and results of operation.

We are subject to the risks associated with international trade policies, geopolitics and trade protection measures, and our business, financial condition and results of operations could be adversely affected.

Our operations may also be negatively affected by any deterioration in the political and economic relations among countries and sanctions and export controls administered by the government authorities in the countries in which we operate, and other geopolitical challenges, including, but not limited to, economic and labor conditions, increased duties, taxes and other costs and political instability. Furthermore, concerns over inflation, energy costs, geopolitical frictions, capital market volatility and liquidity issues may create difficult operating conditions in the future. Sales of our products and services in certain countries and sales of products that include components obtained from certain foreign suppliers could be materially and adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. For example, the U.S. government imposed economic and trade sanctions directly or indirectly affecting China-based technology companies. Such laws and regulations are likely subject to frequent changes, and their interpretations and enforcements involve substantial uncertainties, which may be heightened by national security concerns or driven by political and/or other factors that are out of our control. Therefore, such restrictions, and similar or more expansive restrictions that may be imposed by the U.S. or other jurisdictions in the future, may be difficult or costly to comply with and may materially and adversely affect us and our key suppliers' and customers' abilities to obtain technologies, systems, devices or components that may be critical to our technology infrastructure, service offerings and business operations. In addition, the restrictions may also subject us to regulatory investigations, fines, penalties or other actions and reputational harm.

Dahua Technology, one of our shareholders and a connected person, was added to the Entity List in October 2019. Any export, re-export or transfer (in-country) of an item subject to the Export Administration Regulations ("**EAR**") to Dahua Technology requires a U.S. export license. While we believe, based on advice of our U.S. Export Control Legal Adviser, that our transactions with Dahua Technology and our 20% interests in Dahua Technology's subsidiary, Huaruijie Technology, do not result in any violation of the EAR, there can be no assurance that the U.S. Department of Commerce — Bureau of Industry and Security ("**BIS**") would hold the same view or that the export controls, sanctions, or trade embargoes applicable to Dahua Technology and its affiliates will not change. If our Company or other subsidiaries of our Group, or if the entire Group, were to become targeted under any economic and trade sanctions and/or export control restrictions in the future due to our relationship with Dahua Technology or otherwise, this may result in a material adverse effect on our business, regulatory investigations, and reputational harm to us. For further information on the transactions and shareholding relationships with Dahua Technology and its subsidiaries ("**Dahua Technology Group**") and our internal control measures, please see the section headed "Business — U.S. Export Control Implications on Transactions and Shareholder Relationships with Dahua Technology and Its Subsidiaries." In addition, there can be no assurance that our internal control measures would be adequately followed and implemented, or that the implementation of such internal control measures would be sufficient for us to address concerns associated with any applicable sanctions and export control laws.

From time to time, we may evaluate and consider strategic investments or acquisitions, which could require significant management attention and adversely affect our financial results.

We may evaluate and consider strategic investments, combinations, acquisitions or alliances to enhance our market position. These transactions could be material to our financial condition and results of operations if consummated. If we are able to identify an appropriate investment opportunity, we may not be able to successfully consummate the transaction and, even if we do consummate such a transaction, we may be unable to gain the desired benefits or avoid the difficulties and risks of such transaction, which may result in investment losses. Any future investments or acquisitions may not be successful, may not benefit our business strategy, may not generate sufficient revenue to offset the associated investments or acquisition costs or may not generate the intended benefits.

RISKS RELATING TO DOING BUSINESS IN CHINA

Changes in China's economic, political and social conditions, as well as policies of the PRC government, could have a material adverse effect on our business and prospects.

During the Track Record Period, we generated all of our revenue in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political, and legal developments in China. Generally, the PRC government regulates the economy and related industries by imposing industrial policies and regulating the PRC's macro-economy through fiscal and monetary policies. In the past decades, the PRC government has taken various measures to promote market economy and the establishment of sound corporate governance in business entities. The

PRC government also exerts significant influence over China's economic growth through strategically allocating resources, controlling the payment obligations in foreign currency, setting monetary policies and providing preferential treatments to particular industries or companies. While the PRC economy has experienced significant growth over the past decades, the growth rate of the PRC economy has gradually slowed as it experienced the impact of COVID-19 pandemic in 2020 and 2021, and such impact may still persist. It may be difficult for us to predict all the risks and uncertainties that we may face as a result of the current economic, political, social and regulatory development, any prolonged slowdown in the growth of the PRC economy may reduce customers' demand for our products and services and materially and adversely affect our business and results of operations. Furthermore, any major changes in the policies of the PRC government or in the laws and regulations in China could have a material impact on the overall economic growth of China.

The PRC legal system is evolving, which leads to uncertainties that could adversely affect us.

We conduct our business primarily through our subsidiaries in China. Our operations in China are governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. As the legislation in China and the PRC legal system has continued to evolve rapidly over the past decades and the PRC government has made significant progress in promulgating laws and regulations related to economic affairs and matters. For example, such laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, many of these laws and regulations are relatively new and there is a limited volume of published decisions and enactments. In particular, there exist substantial uncertainties surrounding the evolvement, interpretation and enforcement of regulatory requirements of cybersecurity, data security, privacy protection as well as anti-monopoly, and we may need to take certain corresponding measures to maintain our regulatory compliance, such as adjusting the relevant business or transactions and introducing compliance experts and talents, which may incur additional related costs and adverse impact on our business. As a result, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Therefore, there are uncertainties involved in their implementation and interpretation, and it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available to you and us.

Such uncertainties, including uncertainty over the scope and effect of our contracts, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue business operations.

The PRC government's control over foreign currency conversion may limit our foreign exchange transactions.

Currently, Renminbi still cannot be freely converted into any foreign currencies, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. A portion of our revenue must be converted into other currencies in order to meet our foreign currency obligations. For example, we need to obtain foreign currency to make payments of declared dividends, if any, on our H Shares. There is no assurance that, under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. The value of Renminbi against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in political and economic conditions in China and internationally and the fiscal and foreign exchange policies prescribed by the PRC government. Any devaluation of Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currencies.

Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following the completion of the [**REDACTED**], do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved, registered or filed in advance by SAFE in certain cases.

Under existing foreign exchange regulations, following completion of the [**REDACTED**], we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will be continuously effective in the future. In addition, due to the restriction resulting from government foreign exchange regulations, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to holders of our H Shares or to satisfy any other foreign exchange requirements.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profit. Our distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in years in which we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

In addition, we are required to comply with the dividend distribution rules prescribed by the PRC regulatory authorities when determining our dividend payout ratios. The PRC regulatory authorities may further amend the dividend distribution rules for listed companies in the future, which could significantly affect the amount of capital available to support the development and growth of our business.

Moreover, as the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our subsidiaries to pay dividends to us could have a negative impact on our cash flows and our ability to distribute dividend to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

You may experience difficulties in effecting service of legal process or enforcing foreign judgments against us and our management.

We are incorporated under the laws of the PRC and all of our business and operations are located in the PRC. In addition, almost all of our directors, supervisors and officers reside in China and substantially all of their assets are located in China. It may be difficult for investors to effect service of process upon those persons residing in China or to enforce against us or them in China any judgments obtained from non-PRC courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts of most other jurisdictions. As a result, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions outside China may be difficult or even impossible.

On July 14, 2006, the Supreme People's Court of the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》(the "**Arrangement**"). Under the Arrangement, a party with an enforceable final court judgment rendered by any designated people's court of China or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant people's court of China or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in China in order to seek recognition and enforcement of foreign judgments in China.

On January 18, 2019, the Supreme People's Court of the PRC and Hong Kong entered into an agreement regarding the scope of judgments which may be enforced between China and Hong Kong《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》(the "**New Arrangement**"). The New Arrangement will broaden the scope of judgments that may be enforced between China and Hong Kong under the Arrangement. Whereas a choice of jurisdiction needs to be agreed in writing in the form of an agreement between the parties for the selected jurisdiction to have exclusive jurisdiction over a matter under the Arrangement, the New Arrangement provides that the court where the judgment was sought could apply jurisdiction in accordance with the certain rules without the parties' agreement. The New Arrangement will replace the Arrangement when the former becomes effective. However, as of the Latest Practicable Date, the New Arrangement had not become effective, and no specific date had been determined as its effective date. We cannot assure you that any action brought in China by holders of H Shares to enforce a Hong Kong arbitration award made in favor of holders of H Shares would succeed.

Furthermore, although we will be subject to the Listing Rules and the Takeovers Code upon the [**REDACTED**] of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Moreover, the Takeovers Code does not have the force of law and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Disputes between holders of H Shares and us, our Directors, supervisors, senior officers or holders of non-listed shares, arising out of our Articles of Association or the rights or obligations conferred or imposed upon by the PRC Company Law and related rules and regulations concerning our affairs, including the transfer of our H Shares, are to be resolved through arbitration rather than by a court of law. A claimant may elect to submit a dispute to arbitration organizations in Hong Kong or in China. Awards that are made by the PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, we cannot assure you that any action brought in China by any holder of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H Shares would succeed.

Holders of H Shares may be subject to PRC taxation.

Non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares in accordance with applicable PRC tax laws, rules and regulations.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), non-PRC resident individuals are subject to a 20% PRC individual income tax on their dividend income derived from China and we are required to withhold such tax from our dividend payments. If there is an applicable tax treaty to avoid double taxation and taxation evasion between China and the jurisdiction where the foreign individual resides, the applicable tax rate shall be determined in accordance with such tax treaty. Considering that the applicable tax rate on dividends is usually 10% according to tax treaties or tax agreements and that the number of stockholders is large for a listed company, to simplify the tax administration, generally a domestic non-foreign-investment enterprise with shares listed in Hong Kong can withhold dividend income tax at a rate of 10%. There remains uncertainty as to whether gains realized by non-PRC resident individuals on disposition of H Shares are subject to PRC individual income tax.

Pursuant to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and other applicable PRC tax rules and regulations, non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises are subject to a 10% PRC enterprise income tax rate on dividend income received from a PRC company and gains realized upon the sale or other dispositions of equity interest in a PRC company. The 10% tax rate is subject to reduction under any special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise domiciles.

There remains substantial uncertainty as to the interpretation and implementation of the PRC EIT Law and other applicable PRC tax rules and regulations by the PRC tax authorities, including whether and how non-PRC resident H shareholders are subject to personal income tax or enterprise income tax on gains realized upon the sale or other dispositions of their H shares. In addition, the value of your investment in our H Shares may be materially affected by unfavorable changes in the applicable tax rates currently stipulated by the PRC tax authorities.

For additional information, please refer to "Taxation and Foreign Exchange" in Appendix III to this document.

Any failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations.

As advised by our PRC Legal Advisor, we were in compliance with applicable laws and regulations related to social insurance and housing provident funds in all material aspects during the Track Record Period. However, we cannot assure you that any new laws and regulations or any changes in the implementation of the existing laws and regulations will not require us to pay any contribution shortfall retroactively, thereby adversely affecting our financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our H Shares, and their liquidity and market price may be volatile.

Prior to the **[REDACTED]**, there was no public market for our H Shares. We cannot assure you that a public market for our H Shares with adequate liquidity and trading volume will develop and be sustained following the completion of **[REDACTED]**. In addition, the **[REDACTED]** of our H Shares is expected to be fixed by agreement between the **[REDACTED]** and us, and may not be an indication of the market price of our H Shares following the completion of the **[REDACTED]**. If an active public market for our H Shares does not develop following the completion of **[REDACTED]**, the market price and liquidity of our H Shares could be materially and adversely affected.

The price and trading volume of our H Shares may be highly volatile. Several factors, some of which are beyond our control, such as variations in our results of operations, changes in our pricing policy, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in profit forecast or recommendations by financial analysts, changes in ratings by credit rating agencies, litigation or the removal of the restrictions on share transactions, could cause large and sudden changes to the volume and price at which our H Shares will trade.

In addition, the Hong Kong Stock Exchange and other securities markets have, from time to time, experienced significant price and volume volatility that is not related to the operating performance of any particular company.

Holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The **[REDACTED]** of our H Shares is expected to be determined on the **[REDACTED]**. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several business days after the pricing date. As a result, investors may not be able to sell or deal in our H Shares during that period. The price and trading volume of the H Shares may be highly volatile. Factors such as variations in our revenue, net profit and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for other EV companies could cause the market price of our H Shares to change substantially. Any such developments may result in significant and sudden changes in the volume and price at which our H Shares will trade. We cannot assure you that these developments will not occur in the future. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, which could occur between the time of sale and the time trading begins.

Substantial future sales or the expectation of substantial sales of our H Shares in the public market could cause the price of our H Shares to decline.

Although our Single Largest Group of Shareholders are subject to restrictions on their sales of H Shares within 12 months from the [**REDACTED**] as described in "[**REDACTED**]" in this document, future sales of a significant number of our H Shares by our Single Largest Group of Shareholders or other existing shareholders in the public market after the [**REDACTED**], or the perception that these sales could occur, could cause the market price of our H Shares to decline and could materially impair our future ability to raise capital through [**REDACTED**] of our H Shares. We cannot assure you that our Single Largest Group of Shareholders, or other existing shareholders will not dispose of H Shares held by them or that we will not issue H Shares pursuant to the general mandate to issue shares granted to our Directors as described in "Appendix IV — Summary of Principal Legal and Regulatory Provisions", upon the expiration of restrictions set out above. We are currently applying for part of the Company's Domestic Shares to circulate on the Hong Kong Stock Exchange after the completion of the [**REDACTED**]. According to the PRC Company Law, the Shares issued by the Company prior to the [**REDACTED**] are restricted from trading within one year from the [**REDACTED**]. Such restriction from trading will limit the number of H Shares to be circulated on the market, which will in turn adversely affect the liquidity of the H Shares during such restriction period. If our application for the circulation of our relevant Domestic Shares on the Hong Kong Stock Exchange after the completion of the [**REDACTED**] is successful, any future sales (after the expiration of the restrictions set out above) of Domestic Shares by relevant Shareholders in the public market may affect the market price of the H Shares. Moreover, if we convert a substantial number of domestic shares into H shares to be [**REDACTED**] and traded in the future at the Hong Kong Stock Exchange, it may further increase the supply of the H shares in the market, which may affect the market price of the H Shares. We cannot predict the effect, if any, that any future sales of Shares by our Single Largest Group of Shareholders or other existing Shareholders, or the Shares available for sale by our Single Largest Group of Shareholders or other existing Shareholders, or the issuance of Shares by our Company may have on the market price of the H Shares. Sale or issuance of a substantial number of Shares by our Single Largest Group of Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the H Shares.

We may need additional capital, and the sale or issue of additional H Shares or other equity securities could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the net [**REDACTED**] from the [**REDACTED**], we may require additional cash resources to finance our continued growth or other future developments. We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell additional equity securities, which could result in additional dilution to our Shareholders.

Purchasers of our H Shares in the [REDACTED] may experience immediate dilution upon such purchases and may experience further dilution if we issue additional H Shares pursuant to the exercise of the [REDACTED] and the [REDACTED].

As the **[REDACTED]** of our H Shares is higher than the consolidated net tangible assets per Share immediately prior to the **[REDACTED]**, purchasers of our H Shares in the **[REDACTED]** may experience an immediate dilution. Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their H Shares. In addition, purchasers of our H Shares may experience further dilution of their shareholdings if we issue additional H Shares pursuant to the exercise of the **[REDACTED]** and the **[REDACTED]**. The **[REDACTED]** comprises: (i) the **[REDACTED]** of **[REDACTED]** H Shares (subject to **[REDACTED]** and the **[REDACTED]**); and (ii) the **[REDACTED]** of **[REDACTED]** H Shares (subject to **[REDACTED]**, the **[REDACTED]** and the **[REDACTED]**). The **[REDACTED]** in the **[REDACTED]** will represent approximately **[REDACTED]**% of our enlarged share capital immediately after the completion of the **[REDACTED]**, without taking into account the exercise of the **[REDACTED]** and the **[REDACTED]** and any H Shares to be issued upon exercise of the options granted under the Pre-**[REDACTED]** Share Option Scheme. If both the **[REDACTED]** and the **[REDACTED]** are exercised in full, an additional **[REDACTED]** and an additional **[REDACTED]** will be issued respectively and the total **[REDACTED]** will represent approximately **[REDACTED]**% of our issued share capital immediately following the completion of the **[REDACTED]**, without taking into account any H Shares to be issued upon exercise of the options granted under the Pre-**[REDACTED]** Share Option Scheme.

We cannot assure you whether and when we will declare and pay dividends in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be decided by our Board of Directors at their discretion and will be subject to the approval of the general meeting. A decision to declare or to pay dividends and the amount thereof depend on various factors, including but not limited to our results of operations, cash flows and financial position, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association and other constitutional documents, the PRC Company Law and any other applicable PRC laws and regulations, market conditions, our strategy and projection for our business, contractual restrictions and obligations, taxation, regulatory restrictions and any other factors from time to time deemed by our Board of Directors as relevant to the declaration or suspension of dividends. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See "Financial Information — Dividend Policy."

Certain statistics contained in this document are derived from publicly available official sources and they may not be reliable.

Certain statistics contained in this document relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications. However, we cannot assure you of the quality or reliability of such source materials. They have not been prepared or independently verified by us, the [**REDACTED**] or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such statistics. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this document may be inaccurate or may not be comparable to statistics produced with respect to other economies. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," and other similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved, and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

Investors should read the entire document carefully and should not consider any particular statements in this document or in published media reports without carefully considering the risks and other information contained in this document.

Prior to the publication of this document, there has been coverage in the media regarding us and the [**REDACTED**], which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the [**REDACTED**]. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this document. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.