*You should read the following discussion and analysis in conjunction with our consolidated financial statements, included in the Accountant's Report in Appendix I, together with the respective accompanying notes. Our consolidated financial information has been prepared in accordance with IFRS.*

*The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this document. For further details, see "Forward-Looking Statements."*

## OVERVIEW

Founded in 2015, we are a smart EV company based in China primarily focusing on the mid- to high-end segment of China's NEV market with a price range of RMB150,000-300,000. Our flagship models, the C11 and C01, provide longer driving range, greater acceleration, more interior space and a wider variety of autonomous driving functions than most comparable models within the same price range available in China's EV market as of the Latest Practicable Date. We delivered a total of 43,748 vehicles in 2021, a 443.5% increase from 2020, making us the fastest-growing among the leading pure-play EV companies based in China in terms of delivery volume, according to Frost & Sullivan. We delivered 51,994 smart EVs in the first half of 2022, representing an increase of 265.3% from the same period in 2021.

We internally develop all our key hardware and software across the core systems and electronic components of our vehicles. We are the only pure-play EV company, and one of the few NEV companies, based in China with such a full-suite of R&D capabilities, according to Frost & Sullivan. We develop cross-platform systems and electronic components from the ground up, which are highly configurable and easily adaptable across different EV models, making our R&D highly efficient and cost-effective. We are also the most vertically integrated pure-play EV company, and one of the most vertically integrated NEV companies, based in China, designing and producing in-house all of the core systems and electronic components for our vehicles, according to Frost & Sullivan. These include our intelligent power system (Leapmotor Power), autonomous driving system (Leapmotor Pilot), and smart cockpit system (Leapmotor OS). We believe such unique capabilities in smart EVs enable us to produce high caliber products, and develop new models rapidly and enjoy a cost advantage.

We experienced robust growth during the Track Record Period. Our revenue increased by 439.7% from RMB117.0 million in 2019 to RMB631.3 million in 2020, and further increased by 396.1% to RMB3,132.1 million in 2021. Our revenue increased by 616.4% from RMB278.0 million for the three months ended March 31, 2021 to RMB1,991.8 million for the same period in 2022. Our gross margin improved from -95.7% in 2019 to -50.6% in 2020, and further to -44.3% in 2021, and from -49.4% for the three months ended March 31, 2021 to -26.6% for the same period in 2022.

## BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with IFRS, issued by the International Accounting Standards Board. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 2.1 to the Accountant's Report included in Appendix I to this document.

## KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, including the following:

### Our Ability to Generate Customer Demand

Our results of operations depend significantly on our ability to generate and satisfy customer demand. We endeavor to increase brand presence through innovation and deliver the finest smart mobility experience via our smart EVs and services. Our products offer great performance at compelling prices, making us well poised to capture market opportunities. We have successfully launched and delivered new models of smart EVs in a swift and efficient manner to address evolving and diversified customer demand.

Our ability to generate market demand also depends on the successful expansion of our sales and service network, which includes directly operated and channel partner stores. We also intend to expand into the international markets, with an initial focus on European market, the second largest EV market in the world. As we continue to develop and launch new smart EV models and expand our sales and service network, we anticipate to see rapid growth in our customer base and revenue.

### Our Ability to Expand and Upgrade Our Smart EV Portfolio

Our ability to continuously introduce new smart EV models will be a key driving factor for our future growth. We have launched four smart EVs, the S01, the T03, the C11 and the C01. We further ramp up our momentum by introducing seven new BEV models by 2025 with one to three models each year, establishing a diverse and expanding portfolio of smart EVs to further penetrate the mid- to high-end segment in China's NEV market. In May 2022, we launched the C01, a mid- to large-sized smart electric sedan, as the first step to this acceleration.

We strive to offer feature-rich, high performance smart EVs in the mid- to high-end segment with prices predominantly between RMB150,000 to RMB300,000. The sales volume of NEVs in the mid- to high-end segment in China is expected to increase at a CAGR of 34.0% from 2021 to 2026, driving the market share of this segment in the total NEV sales to grow from 36.2% to 49.1% during the same period, according to Frost & Sullivan. We believe our proven ability in developing and delivering new vehicle models allows us to curate a diverse portfolio of smart EVs and to serve a rapidly growing user base with evolving and diverse preferences.

**Our Ability to Control Costs and Improve Operational Efficiency**

Our results of operations depend partly on our ability to manage costs and improve our operational efficiency. Benefiting from our full-suite of R&D capabilities and vertical integration business model, we aim to further improve operating efficiency in various aspects of our business, including (i) smart EV research and development, (ii) supply chain, and (iii) production. Our modularized hardware, software and cross-platform E/E architecture enable us to achieve high adaptability across different EV models, allowing us to develop new models in a fast and cost-efficient manner. In addition, the high degree of vertical integration significantly simplifies and streamlines our supply chain, lowering procurement cost while enhancing overall supply chain stability and quality. Our production capability also affects our cost of sales and margin profile.

We expect to continue to leverage our strong in-house production capabilities of core systems and electronic components to reduce our unit production cost, as we scale up and achieve economies of scale. We will continue to optimize the production process in our manufacturing facilities through advanced, intelligent and automated manufacturing. Our gross margin improved from -95.7% in 2019 to -50.6% in 2020, and further to -44.3% in 2021 and from -49.4% for the three months ended March 31, 2021 to -26.6% for the same period in 2022. We believe our efficient production process and supply chain management enable us to quickly launch models in response to customer demand.

Moreover, we will further prudently control our operating expenses. During the Track Record Period, our administrative expenses and selling expenses decreased as a percentage of our revenue from 249.6% in 2019 to 53.7% in 2020, and further to 26.4% in 2021. Our administrative expenses and selling expenses decreased as a percentage of our revenue from 62.6% for the three months ended March 31, 2021 to 15.9% for the same period in 2022. As we expand our smart EV portfolio and grow our revenue, we expect our costs and expenses as percentages of our revenue to continue to decline. This is paramount to our continued success and paves the way to profitability.

**Our Ability to Enhance Technological Capabilities**

We are the only pure-play EV company based in China that develops all key hardware and software across the core systems and electronic components, according to Frost & Sullivan. We are dedicated to research and development, and our R&D personnel accounted for 32.7% of the total employees as of June 30, 2022. Leveraging our highly efficient R&D, we developed and delivered three smart EV models during the Track Record Period. We will continue to recruit and retain talents across R&D areas, escalating our continued innovation in smart EV technologies.

Particularly, we will continue to upgrade our Leapmotor Pilot autonomous driving system and Leapmotor OS smart cockpit system. We plan to deliver a smarter and more immersive user experience. This will depend on our abilities to develop advanced software, new functions and attractive contents, and seamlessly integrate them into our smart EVs. We will continue to devote significant resources to R&D on our smart EV technologies and further differentiate our smart EVs from competition. We believe that such technologies are mission-critical to grow our customer base through offering them remarkable smart mobility experience.

**Our Ability to Execute Effective Sales and Marketing Strategies**

Effective sales and marketing are critical to our sales growth. We leverage our network of directly operated and channel partner stores to conduct our sales and marketing activities. We also seek to acquire new customers cost-efficiently through a variety of other channels, including online platforms and word-of-mouth referrals. We will continue to execute our direct-to-customer strategy and increase the number of stores to expand our nationwide sales and service network.

We have developed our own integrated platform to directly interact with users, offering full lifecycle service experience. Such user engagement and interaction would enhance the conversion rates of sales. In addition, we offer a wide range of services and functionalities through Leapmotor APP to enhance customer satisfaction and loyalty. See "Business — Sales and Marketing — Leapmotor APP."

**Other Factors Affecting Our Results of Operations**

Our business and operating results are affected by a series of general factors, which include:

- global and China's macroeconomic conditions and the growth of China's overall passenger vehicle market;
- market acceptance of EVs;
- evolution of smart EV technologies;
- supply of key components; and
- relevant laws and regulations, governmental policies and initiatives.

## IMPACT OF THE COVID-19 PANDEMIC ON OUR OPERATIONS AND FINANCIAL PERFORMANCE

The COVID-19 pandemic has affected the global and Chinese economy, automotive industry in general and our Company. The outbreak has resulted in nationwide restrictions in travel and public transport, and implementation of social distancing measures. As a result, the pandemic had impacts on the macro-economic environment and the EV industry in the PRC, and various aspects of our operations, including supply chain, R&D activities, production and logistics. See "Industry Overview — Impact of the COVID-19 Pandemic on the Macro-economic Environment in the PRC" and "Industry Overview — Impact of the COVID-19 Pandemic on the EV industry in the PRC" for details on the impact on the macro-economic environment and the EV industry in the PRC.

### Impact on Supply Chain

The COVID-19 pandemic affected delivery of certain components from our suppliers during the Track Record Period. For example, there was a shortage in supply and price increase of processor chips in 2021. Our vehicle production and deliveries were hence also affected, such that our production lead time was prolonged from approximately one to two months to approximately three to four months on average. However, we have adopted various measures in response to potential disruption of the supply chain. In particular, we entered into reserve agreements with some of our suppliers to maintain a safety stock of inventory of semiconductor chips. Accordingly, we have not experienced significant constraints on supply chain or significant increases in our procurement costs as a result of the COVID-19 pandemic, nor have we experienced any material shortage of semiconductor chips or suffered any production suspension due to a disruption in the supply chain during the Track Record Period and up to the Latest Practicable Date. See "Business — Our Suppliers — Raw Materials, Parts and Components" for details of our supply chain management. With the relief of the pandemic in the PRC, substantial parts of our business operations have been restored to their normal level. We also expect our production lead time to be shortened in the near future.

### Impact on Production, R&D and Logistics

Due to the aforementioned impacts on our supply chain, we experienced some temporary disruptions in production and vehicle delivery during the Track Record Period. Our R&D activities were hence also affected in the first half of 2020. In light of the potential constraints on our supply chain, we have strategically stocked up on certain raw materials for the anticipated increase in our vehicle production in 2021, including electronic components and battery cells. With the relief of the pandemic in the PRC, substantial part of our business operations has been restored to the normal level. As of the Latest Practicable Date, we did not receive any material cancellation of orders by our customers due to the COVID-19 pandemic.

### Impact on Expansion Plans

We completed the acquisition of the relevant plots of land for the construction of the Hangzhou Plant in December 2021. As of the Latest Practicable Date, we had not experienced any material adverse impact on our expansion plans due to the pandemic.

Despite the impact of the COVID-19 pandemic, we have achieved significant growth in revenue and smart EV deliveries. Our total revenue increased by 439.7% from RMB117.0 million in 2019 to RMB631.3 million in 2020 and further increased by 396.1% to RMB3,132.1 million in 2021. Our revenue increased by 616.4% from RMB278.0 million for the three months ended March 31, 2021 to RMB1,991.8 million for the same period in 2022. We delivered 8,050 smart EVs in 2020, representing an increase of 676.3% from 2019 and further delivered 43,748 smart EVs in 2021, representing an increase of 443.5% from 2020. For the three months ended March 31, 2022, we delivered 21,579 smart EVs, representing an increase of 409.5% from 4,235 units in the same period in 2021. As of March 31, 2022, we had a liquidity of RMB5,532.4 million, which includes cash and cash equivalents, restricted cash and wealth management products. We believe that this level of liquidity is sufficient to help us successfully navigate the uncertainties brought about by the pandemic.

However, the extent to which the COVID-19 pandemic affects our future results of operations will depend on the duration and severity of the pandemic, the extent of new waves of outbreak, the development and progress of distribution of COVID-19 vaccines and other medical treatment, and the actions taken by government authorities to contain the pandemic, all of which are beyond our control. In light of these uncertainties in the global market and economic conditions attributable to the COVID-19 pandemic, we cannot precisely predict its effects on our business, financial performance and liquidity. See "Risk Factors — Risks Relating to Our Business and Industry — The COVID-19 pandemic has adversely affected, and may continue to adversely affect, our results of operations." Nonetheless, we believe that the COVID-19 pandemic would not materially affect our expansion plan or use of proceeds in the current circumstance for the following reasons: (i) we have not experienced material disruption in the construction of our production facilities; (ii) the expansion of our sales network was not materially affected, as the number of our stores increased from 291 as of December 31, 2021 to 336 as of March 31, 2022 and 443 as of July 31, 2022; and (iii) there was no material impact on our ordinary course of business, including our R&D and marketing activities.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the historical financial information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying our accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on us and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**Revenue Recognition**

*(a) Sales of Vehicles and Parts*

We manufacture and sell electric vehicles and related parts in the market, and generate revenue from sales of electric vehicles, together with a number of embedded products through a contract. The revenue for sales of the vehicles and parts is recognized at a point in time when the control of the vehicles and parts are transferred to the customer. Initial refundable deposits for intention orders received from customers prior to the signing of vehicle purchase agreements are recognized as advances from customers.

Vehicle buyers in the PRC are entitled to government subsidies when they purchase electric vehicles. For efficiency purpose and better customer service, we apply for and collect such government subsidies on behalf of the customers. Accordingly, customers only pay the amount after deducting government subsidies. We determine that the government subsidies should be considered as part of the transaction price because the subsidy is granted to the buyer of the electric vehicle and the buyer remains liable for such amount in the event the subsidies were not received by us due to the buyer's fault such as refusal or delay of providing application information.

The standard warranty provided by us, including free roadside assistance service for vehicle quality problems and mobility scooter service, is accounted for as provisions, and the estimated costs are recorded as a liability when we transfer the control of vehicle to a customer.

*(b) Sales of Automotive Regulatory Credits*

We earn tradable automotive regulatory credits in the operation of vehicle business under the Measures for 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》) issued by MIIT. We sell these credits to other regulated entities who can use the credits to comply with the regulatory requirements.

Payments for automotive regulatory credits are typically received at the point control transfers to the purchasing party, or in accordance with payment terms customary to the business. We recognize the sale of automotive regulatory credits as revenue at the time when the control of the regulatory credits has been transferred to the purchasing party.

*(c) Services*

We provided multiple services including extended one-year or lifetime warranty, vehicle internet connection service, firmware over the air upgrades and free lifetime roadside assistance service stated in a series of contracts for sales of vehicles. The aforementioned services are accounted for as separate performance obligations. We recognize the revenue using a straight-line method over the service period. A contract liability is recognized for payments received in which revenue has not been recognized.

**Share-based Payments**

Certain share transfer and grant of shares under the share award scheme have resulted in share-based payment expenses.

We have engaged an independent valuer to determine the total fair value of the equity incentive tools granted to employees. The discounted cash flow method and back-solve method were used to determine the total equity value of our Company and then equity allocation model was adopted to determine the fair value of the equity incentive tools. Significant estimates on assumptions, such as risk-free interest rate, volatility and dividend yield are made based on management's best estimates.

As the awards granted in equity-settled share-based payment plan are conditional on a Qualified [**REDACTED**] ("[**REDACTED**]"), we have estimated the [**REDACTED**]'s probability and [**REDACTED**] date when they calculated share-based payment expenses at each reporting period end. Since [**REDACTED**] condition is considered as vesting condition, the entity also needs to consider when [**REDACTED**] is probable. If the service period under the service condition ends before [**REDACTED**], then the vesting period will end on [**REDACTED**] date; if the service period under the service condition ends after [**REDACTED**], then the vesting period will end according to the service conditions. As of March 31, 2022, we assessed it is probable that the performance condition (i.e. [**REDACTED**]) will be achieved in the future.

See Note 26 to the Accountant's Report in Appendix I to this document.

**Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

| | |
|---|---|
| — Buildings | 20 years |
| — Machinery and molds | 5-10 years |
| — Vehicles | 2-4 years |
| — Electronic equipment and others | 3 years |
| — Leasehold improvements | Shorter of the lease terms or 3 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. See Note 2.9 to the Accountant's Report in Appendix I to this document.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains — net" in the consolidated statements of comprehensive loss.

Construction in progress represents unfinished construction and equipment under construction or pending installation and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

**Fair Value Estimation**

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. We use our judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. See Note 3.3 to the Accountant's Report in Appendix I to this document.

## RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the periods presented:

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *(RMB in thousands)* | | | | |
| | | | | (unaudited) | |
| **Revenue:** | | | | | |
| — Sales of vehicles and parts | 116,963 | 615,823 | 3,058,818 | 278,047 | 1,990,354 |
| — Sales of automotive regulatory credits | – | 15,478 | 71,934 | – | – |
| — Services | – | – | 1,307 | – | 1,483 |
| **Total revenue** | **116,963** | **631,301** | **3,132,059** | **278,047** | **1,991,837** |
| **Cost of sales** | **(228,929)** | **(950,902)** | **(4,519,690)** | **(415,455)** | **(2,521,312)** |
| **Gross loss** | (111,966) | (319,601) | (1,387,631) | (137,408) | (529,475) |
| R&D expenses | (358,318) | (289,248) | (740,015) | (92,996) | (242,545) |
| Selling expenses | (131,148) | (154,920) | (427,855) | (89,728) | (162,375) |
| Administrative expenses | (160,830) | (183,810) | (398,310) | (84,371) | (154,126) |
| Net impairment losses on financial assets | (101) | (212) | (298) | (95) | (166) |
| Other income | 23,477 | 66,590 | 66,293 | 2,026 | 9,220 |
| Other gains – net | 7,930 | 11,671 | 19,498 | 4,453 | 7,492 |
| **Operating loss** | **(730,956)** | **(869,530)** | **(2,868,318)** | **(398,119)** | **(1,071,975)** |
| Finance income | 1,693 | 1,294 | 84,007 | 13,202 | 31,220 |
| Finance costs | (171,868) | (230,331) | (61,658) | (11,464) | (3,389) |
| **Finance (costs)/income – net** | (170,175) | (229,037) | 22,349 | 1,738 | 27,831 |
| Share of net (loss)/profit of associate accounted for using the equity method | – | (1,526) | 196 | (854) | 1,941 |
| **Loss before income tax** | (901,131) | (1,100,093) | (2,845,773) | (397,235) | (1,042,203) |
| Income tax expense | – | – | – | – | – |
| **Loss and total comprehensive loss for the year/period attributable to the equity holders of our Company** | **(901,131)** | **(1,100,093)** | **(2,845,773)** | **(397,235)** | **(1,042,203)** |

## NON-IFRS MEASURE

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net loss as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe this non-IFRS measure facilitates comparisons of operating performance from year to year and company to company by eliminating potential impacts of items.

We believe this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net loss may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRS. We define adjusted net loss as net loss for the period adjusted by adding back share-based payment expenses and interest expenses on financial instruments with preferred rights at amortized cost.

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

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2021** | **2022** |
| | *(RMB in thousands)* | | | | |
| | | | | (unaudited) | |
| **Reconciliation of net loss to adjusted net loss:** | | | | | |
| Loss for the year/period | (901,131) | (1,100,093) | (2,845,773) | (397,235) | (1,042,203) |
| Add: | | | | | |
| — Share-based payment expenses[(1)] | 3,327 | 42,559 | 216,955 | 25,938 | 72,958 |
| — Interest expenses on financial instruments with preferred rights at amortized cost[(2)] | 88,143 | 122,368 | – | – | – |
| **Adjusted net loss[(3)]** | **(809,661)** | **(935,166)** | **(2,628,818)** | **(371,297)** | **(969,245)** |

*Notes:*

(1) Share-based payment expenses mainly represent the arrangement that we receive services from employees as consideration for our equity instruments. Share-based payments are not expected to result in future cash payments.

(2) Interest expenses on financial instruments with preferred rights at amortized cost represent the interest on our Pre-[**REDACTED**] Investments. On December 31, 2020, our Company entered into a termination agreement with the Pre-[**REDACTED**] Investors, pursuant to which the financial instruments with preferred rights at amortized cost were derecognized and no interest was accrued subsequently. In addition, the interest expenses on financial instruments with preferred rights are a non-cash item.

(3) A non-IFRS measure.

During the Track Record Period, our net losses and operating cash outflows were primarily due to the significant amounts of cost of sales and operating expenses incurred. Our net losses increased from RMB901.1 million in 2019 to RMB1,100.1 million in 2020, and further increased to RMB2,845.8 million in 2021. Our net losses increased from RMB397.2 million for the three months ended March 31, 2021 to RMB1,042.2 million for the same period in 2022. The increase in operating expenses was driven by our efforts to (i) acquire talents and staff and invest in R&D activities, and (ii) establish our brand awareness and invest in advertising and marketing activities.

## DESCRIPTION OF KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

### Revenue

During the Track Record Period, we primarily derived revenue from sales of smart EVs and parts. We also generated revenue from (i) sales of automotive regulatory credits and (ii) services. We generated all of our revenue from the PRC during the Track Record Period. As our revenue is recognized when, or as, the control of goods or services is transferred to the customer and a customer is the party that enters into contracts with us to purchase goods or services that are the output of our ordinary business activities, our channel partners are accordingly treated as customers. See Note 2.26 to the Accountant's Report in Appendix I to this document.

The following table sets forth our revenue breakdown, each expressed in absolute amount and as a percentage of our total revenue, for the periods indicated:

| | For the Year Ended December 31, | | | | | | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % | RMB | % | RMB | % |
| | *(in thousands, except for percentages)* | | | | | | (unaudited) | | | |
| Sales of vehicles and parts | 116,963 | 100 | 615,823 | 97.5 | 3,058,818 | 97.7 | 278,047 | 100 | 1,990,354 | 99.9 |
| Sales of automotive regulatory credits | – | – | 15,478 | 2.5 | 71,934 | 2.3 | – | – | – | – |
| Services | – | – | – | – | 1,307 | 0.0 | – | – | 1,483 | 0.1 |
| **Total** | **116,963** | **100** | **631,301** | **100** | **3,132,059** | **100** | **278,047** | **100** | **1,991,837** | **100** |

### *Sales of Vehicles and Parts*

We began delivery of the S01 as our first smart EV model in July 2019. The sales of smart EV and parts is our main source of revenue. We provide optional auto parts for users to add to their purchase orders, as well as replacement parts during after-sales of vehicles. Revenue generated from this segment represents the invoiced value of goods sold, which is after rebate and discounts, as we offer rebates to channel partners and discounts to individual customers. Our business has benefited from PRC government policies that are favorable to the growth of NEVs, 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. Such favorable policies have contributed to the increase in the sales volume of NEVs in China from 1.1 million units in 2019 to 3.3 million units in 2021, which, according to Frost & Sullivan, is expected to further increase to 4.7 million units in 2022, which provides market opportunities that we are able to capture with the launch of our smart EV models.

For the years ended December 31, 2019, 2020, 2021 and the three months ended March 31, 2022, revenue from sales of vehicles and parts amounted to RMB117.0 million, RMB615.8 million, RMB3,058.8 million and RMB1,990.4 million, accounting for 100%, 97.5%, 97.7% and 99.9% of our revenue, respectively. The increase was primarily attributable to (i) the increase in the sales volume of smart EVs and (ii) the higher average selling price as our product mix continued to evolve, given that the C11 enjoyed a higher post-subsidy price from RMB159,800 to RMB199,800, compared to the T03 at RMB68,900 to RMB84,900 during the Track Record Period, and its delivery volume increased since its launch. We started delivery of the T03 and the C11 in May 2020 and October 2021, respectively. The delivery volume of our EV models in aggregate increased from 8,050 units in 2020 to 43,748 units in 2021, which was driven by the launch and additional sales of the C11 as well as the popularity and increasing sales of the T03. Accordingly, we recorded a significant increase in sales of vehicles and parts in 2021. In addition, in the first quarter of 2022, we delivered 21,579 vehicles, representing an increase of 409.5% from the same period in 2021.

### *Sales of Automotive Regulatory Credits*

Enterprises in the PRC can obtain automotive regulatory credits by manufacturing or importing new energy vehicles, and any positive credit balance can be freely traded in the credit management system established by the MIIT. See "Regulatory Overview — (VI) Favorable Policies Relating to New Energy Vehicles in China — 6. Corporate Average Fuel Consumption and New Energy Vehicle Credits Scheme for Vehicle Manufacturers and Importers." Since 2020, sales of automotive regulatory credits constitute a part of our revenue. For the years ended December 31, 2020 and 2021, revenue from sales of automotive regulatory credits amounted to RMB15.5 million and RMB71.9 million, accounting for 2.5% and 2.3% of our revenue, respectively.

### *Services*

We provide certain embedded services to vehicle buyers, including extended one-year or lifetime warranty, vehicle internet connection service, firmware OTA upgrades and free lifetime roadside assistance service. Alongside the launch of the C11 in 2021, the provision of embedded services began to constitute a notable part of our revenue. For the year ended December 31, 2021 and the three months ended March 31, 2022, revenue from embedded services amounted to RMB1.3 million and RMB1.5 million, respectively.

## Cost of Sales

Our cost of sales relates to the production of smart EVs and mainly comprises (i) procurement cost of raw materials and consumables (including changes in inventories of finished goods), (ii) depreciation and amortization and (iii) employee compensation expenses. Our cost of sales has increased primarily due to the increase in sales volume of our smart EVs.

The following table sets forth a breakdown of our cost of sales by nature in absolute amounts and as a percentage of our total cost of sales for the periods indicated:

| | For the Year Ended December 31, | | | | | | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % | RMB | % | RMB | % |
| | *(in thousands, except for percentages)* | | | | | | | | | |
| | | | | | | | (unaudited) | | | |
| Raw materials and consumables used | 154,744 | 67.6 | 742,278 | 78.1 | 4,122,764 | 91.3 | 344,657 | 82.9 | 2,271,371 | 90.1 |
| Depreciation and amortization expenses | 43,181 | 18.9 | 127,131 | 13.4 | 145,817 | 3.2 | 35,632 | 8.6 | 37,256 | 1.5 |
| Employee compensation expenses | 25,093 | 11.0 | 32,669 | 3.4 | 78,799 | 1.7 | 20,331 | 4.9 | 110,555 | 4.4 |
| Warranty expenses | 2,747 | 1.2 | 32,383 | 3.4 | 104,707 | 2.3 | 6,644 | 1.6 | 54,292 | 2.1 |
| Freight expenses | 1,009 | 0.4 | 13,409 | 1.4 | 61,989 | 1.4 | 7,067 | 1.7 | 40,737 | 1.6 |
| Others | 2,155 | 0.9 | 3,032 | 0.3 | 5,614 | 0.1 | 1,124 | 0.3 | 7,101 | 0.3 |
| **Total** | **228,929** | **100** | **950,902** | **100** | **4,519,690** | **100** | **415,455** | **100** | **2,521,312** | **100** |

*Warranty expenses*

We provide warranties on all new vehicles, based on the contracts with our customers at the time of sale of vehicles. During the Track Record Period, our warranty expenses amounted to RMB2.7 million, RMB32.4 million, RMB104.7 million and RMB54.3 million, respectively. We accrue a warranty reserve for the vehicles sold by multiplying the expected unit costs for warranty services by sales volume, which includes the best estimate of projected costs to repair or replace items under warranty. The expected unit costs for warranty services includes frequency of future claims and unit average costs per claim. Given our relatively short history of vehicle sales and changes to the historical or projected warranty experience, we leveraged our industry experience in the estimation of the frequency of future claims. Warranty expenses are recorded as a component of cost of sales in the consolidated statements of comprehensive loss. We re-evaluate the adequacy of warranty accrual on a regular basis.

The basis for estimating warranty expense was disclosed in Note 4(f) and Note 30 of the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

Having considered the audit opinion on the historical financial information set forth in the Accountant's Report and the work performed by the management of our Company, and conducted financial due diligence with the Company to understand the historical frequency of claims, the basis and the methodology of their estimation and other independent due diligence work, such as industry benchmarking analysis, nothing has come to the Joint Sponsors' attention that would cast doubt on the appropriateness of adopting industry experience as the basis for estimating warranty expenses.

**Gross Loss and Gross Margin**

Our gross loss represents our revenue less our cost of sales, and our gross margin represents gross loss divided by our revenue, expressed as a percentage.

The following table sets forth our gross loss in absolute amounts and as a percentage of our revenue for the periods indicated:

| | For the Year Ended December 31, | | | | | | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % | RMB | % | RMB | % |
| | *(in thousands, except for percentages)* | | | | | | (unaudited) | | | |
| **Gross Loss** | (111,966) | (95.7) | (319,601) | (50.6) | (1,387,631) | (44.3) | (137,408) | (49.4) | (529,475) | (26.6) |

Our sales of smart EV and parts were in the early stage. While we experienced significant growth during the Track Record Period, we incurred gross losses throughout the Track Record Period, primarily due to high cost of sales in the early production stage during which we were in the process of ramping up our production and deliveries to achieve economies of scale. Our gross loss increased from RMB112.0 million in 2019 to RMB319.6 million in 2020, and further to RMB1,387.6 million in 2021. Our gross loss increased from RMB137.4 million for the three months ended March 31, 2021 to RMB529.5 million for the same period in 2022. The increase of gross loss during the Track Record Period was mainly attributable to the increase in the number of vehicles sold throughout the Track Record Period, as the cost of sales was relatively high due to the significant cost of raw materials in relation to the procurement of batteries for our vehicles. Our gross margin improved from -95.7% in 2019 to -50.6% in 2020, further to -44.3% in 2021, and from -49.4% for the three months ended March 31, 2021 to -26.6% for the same period in 2022, primarily due to (i) the increase in the average selling price as our product mix continued to evolve, and (ii) the significant decrease in the average manufacturing cost per vehicle, driven by the increasing economies of scale from vehicle production and delivery volume increase. We expect the gross margin will further improve as we continue to manage costs and improve operational efficiency as we scale up.

**R&D Expenses**

Our R&D expenses primarily comprise (i) employee compensation expenses, (ii) design and development expenses, (iii) procurement costs of raw materials and consumables used, and (iv) depreciation and amortization.

The following table sets forth a breakdown of our R&D expenses by nature for the periods indicated:

| | For the Year Ended December 31, | | | | | | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % | RMB | % | RMB | % |
| | *(in thousands, except for percentages)* | | | | | | (unaudited) | | | |
| Employee compensation expenses | 177,363 | 49.5 | 149,454 | 51.7 | 374,646 | 50.6 | 53,306 | 57.3 | 146,040 | 60.2 |
| Design and development expenses | 102,599 | 28.6 | 99,624 | 34.4 | 258,669 | 35.0 | 19,475 | 21.0 | 32,205 | 13.3 |
| Raw materials and consumables used | 51,270 | 14.3 | 17,534 | 6.1 | 50,565 | 6.8 | 8,837 | 9.5 | 39,826 | 16.4 |
| Depreciation and amortization expenses | 8,161 | 2.3 | 17,719 | 6.1 | 23,673 | 3.2 | 5,310 | 5.7 | 10,910 | 4.5 |
| Expenses relating to short-term leases | 3,680 | 1.0 | 863 | 0.3 | 2,272 | 0.3 | – | – | 1,593 | 0.7 |
| Others | 15,245 | 4.3 | 4,054 | 1.4 | 30,190 | 4.1 | 6,068 | 6.5 | 11,971 | 4.9 |
| **Total** | **358,318** | **100** | **289,248** | **100** | **740,015** | **100** | **92,996** | **100** | **242,545** | **100** |

During the Track Record Period, our R&D expenses amounted to RMB358.3 million, RMB289.2 million, RMB740.0 million and RMB242.5 million, accounting for 306.4%, 45.8%, 23.6% and 12.2% of our revenue in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. See "Business — Our Technologies" for details of our R&D activities during the Track Record Period. We expect the R&D expenses to increase alongside our smart EV technologies development and product portfolio expansion in the future.

**Selling Expenses**

Our selling expenses primarily comprise (i) advertising and marketing expenses, (ii) employee compensation expenses, and (iii) depreciation and amortization expenses in relation to our marketing and promotional activities.

The following table sets forth a breakdown of our selling expenses by nature for the periods indicated:

| | For the Year Ended December 31, | | | | | | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % | RMB | % | RMB | % |
| | *(in thousands, except for percentages)* | | | | | | (unaudited) | | | |
| Advertising and marketing expenses | 78,381 | 59.8 | 91,170 | 58.8 | 256,267 | 59.9 | 67,908 | 75.7 | 80,895 | 49.8 |
| Employee compensation expenses | 39,169 | 29.9 | 40,018 | 25.8 | 128,157 | 30.0 | 15,144 | 16.9 | 61,145 | 37.7 |
| Depreciation and amortization expenses | 1,480 | 1.1 | 8,641 | 5.6 | 17,265 | 4.0 | 4,138 | 4.6 | 7,833 | 4.8 |
| Service fees of professional organizations | 1,301 | 1.0 | 3,373 | 2.2 | 2,123 | 0.5 | 161 | 0.2 | 1,189 | 0.7 |
| Rental expenses | – | – | – | – | 416 | 0.1 | 560 | 0.6 | 1,080 | 0.7 |
| Others | 10,817 | 8.2 | 11,718 | 7.6 | 23,627 | 5.5 | 1,817 | 2.0 | 10,233 | 6.3 |
| **Total** | **131,148** | **100** | **154,920** | **100** | **427,855** | **100** | **89,728** | **100** | **162,375** | **100** |

During the Track Record Period, our selling expenses decreased as a percentage of our revenue, primarily due to the significant increase in our revenue and the benefit from economies of scale as a result of our business growth. 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. We expect our selling expenses to increase along our business growth in the future. In particular, we will increase our investment to establish a stronger brand presence. We will increase our brand awareness and strengthen its recognition by launching a variety of online and offline marketing campaigns, such as promotions through traditional media and social media platforms as well as participation in various auto shows.

**Administrative Expenses**

Our administrative expenses primarily comprise (i) employee compensation expenses, (ii) depreciation and amortization expenses and (iii) other expenses such as professional service fees.

The following table sets forth a breakdown of our administrative expenses by nature for the periods indicated:

| | For the Year Ended December 31, | | | | | | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % | RMB | % | RMB | % |
| | *(in thousands, except for percentages)* | | | | | | (unaudited) | | | |
| Employee compensation expenses | 103,428 | 64.3 | 133,414 | 72.6 | 240,397 | 60.4 | 36,084 | 42.8 | 90,908 | 59.0 |
| Depreciation and amortization expenses | 15,033 | 9.4 | 21,957 | 11.9 | 32,407 | 8.1 | 6,747 | 8.0 | 22,978 | 14.9 |
| [REDACTED] | – | – | – | – | 12,024 | 3.0 | – | – | 16,574 | 10.8 |
| Legal, consulting and other professional fees | 14,572 | 9.1 | 6,825 | 3.7 | 74,049 | 18.6 | 27,943 | 33.1 | 10,620 | 6.9 |
| Office expenses | 9,000 | 5.6 | 1,012 | 0.6 | 1,787 | 0.4 | 126 | 0.1 | 559 | 0.4 |
| Lease expenses | 3,136 | 1.9 | 668 | 0.4 | 1,284 | 0.3 | 867 | 1.0 | 1,475 | 0.9 |
| Other taxes and additional expenses | 2,957 | 1.8 | 7,193 | 3.9 | 13,352 | 3.4 | 3,769 | 4.5 | 4,373 | 2.8 |
| Others | 12,704 | 7.9 | 12,741 | 6.9 | 23,010 | 5.8 | 8,835 | 10.5 | 6,639 | 4.3 |
| **Total** | **160,830** | **100** | **183,810** | **100** | **398,310** | **100** | **84,371** | **100** | **154,126** | **100** |

During the Track Record Period, our administrative expenses decreased as a percentage of our revenue, primarily due to the significant increase in our revenue and the benefit from economies of scale as a result of our business expansion. Our administrative expenses amounted to RMB160.8 million, RMB183.8 million, RMB398.3 million and RMB154.1 million, accounting for 137.5%, 29.1%, 12.7% and 7.7% of our revenue in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. We expect our administrative expenses to increase alongside our business expansion in the future. We also plan to make continuous improvement to our administrative efficiency.

### Net Impairment Losses on Financial Assets

Net impairment losses on financial assets primarily represent provisions of impairment of trade receivables and other receivables. We recorded net impairment losses on financial assets of RMB0.1 million, RMB0.2 million, RMB0.3 million and RMB0.2 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. The increase in the net impairment losses on financial assets was primarily due to the increase in our impairment loss on trade receivables driven by the increased sales volume, which was generally in line with the growth of our business.

### Other Income

Our other income primarily consists of government grants, which amounted to RMB23.5 million, RMB66.6 million, RMB66.3 million and RMB9.2 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively.

### Other Gains – Net

Our other net gains primarily comprise (i) net fair value gains on financial assets at fair value through profit or loss (FVPL), (ii) net gains on disposal of property, plant and equipment and intangible assets, (iii) net fair value (losses)/gain on derivative financial instruments, and (iv) net foreign exchange gains/(losses).

The following table sets forth a breakdown of our other net gains for the periods indicated:

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2021** | **2022** |
| | *(RMB in thousands)* | | | | |
| | | | | (unaudited) | |
| Net fair value gains on financial assets at FVPL | 8,263 | 1,959 | 22,238 | 4,315 | 6,602 |
| Net gains on disposals of property, plant and equipment, intangible assets and right-of-use assets | – | 10,141 | (668) | (1) | 133 |
| Net fair value (losses)/gains on derivative financial instruments | (2,842) | 2,073 | – | – | – |
| Net foreign exchange gains/(losses) | 2,742 | (43) | (89) | 132 | 87 |
| Other items | (233) | (2,459) | (1,983) | 7 | 670 |
| **Total** | **7,930** | **11,671** | **19,498** | **4,453** | **7,492** |

**Finance (Costs)/Income – Net**

Finance income comprises interest income on cash at bank and interest income from long-term bank time deposits. Finance costs primarily comprise interest expenses on bank and other borrowings, financial instruments with preferred rights at amortized cost and loans from related parties.

The following table sets forth a breakdown of our finance income and finance costs for the periods indicated:

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2021** | **2022** |
| | *(RMB in thousands)* | | | | |
| | | | | (unaudited) | |
| **Finance income:** | | | | | |
| Interest income on cash at banks | 1,693 | 1,187 | 29,468 | 2,282 | 23,952 |
| Interest income on long-term bank time deposits | – | 107 | 54,539 | 10,920 | 7,268 |
| **Finance income** | **1,693** | **1,294** | **84,007** | **13,202** | **31,220** |
| **Finance costs:** | | | | | |
| Interest expenses on bank and other borrowings | (129,636) | (111,236) | (76,215) | (21,012) | (10,532) |
| Interest expenses on financial instruments with preferred rights at amortized cost | (88,143) | (122,368) | – | – | – |
| Interest expense on loans from related parties | – | (8,986) | (2,342) | (2,342) | – |
| Interest and finance charges on lease liabilities | (184) | (1,127) | (1,666) | (347) | (2,988) |
| **Subtotal** | **(217,963)** | **(243,717)** | **(80,223)** | **(23,701)** | **(13,520)** |
| Less: borrowing costs capitalized in property, plant and equipment | 46,095 | 13,386 | 18,565 | 12,237 | 10,131 |
| **Finance costs** | **(171,868)** | **(230,331)** | **(61,658)** | **(11,464)** | **(3,389)** |
| **Finance (costs)/income – net** | **(170,175)** | **(229,037)** | **22,349** | **1,738** | **27,831** |

Our finance income amounted to RMB1.7 million, RMB1.3 million, RMB84.0 million and RMB31.2 million in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. During the Track Record Period, the increase in our finance income was primarily driven by (i) the increase in the balance of our cash and cash equivalents mainly from the proceeds of our financing activities, and (ii) an increase in interest rates for long-term bank deposits. Our finance costs increased from RMB171.9 million in 2019 to RMB230.3 million in 2020, primarily due to an increase in the cost of financial instruments and loans from equity holders, and subsequently decreased to RMB61.7 million in 2021, primarily due to the repayment of borrowings and a decrease in interest rates. Our finance costs decreased from RMB11.5 million for the three months ended March 31, 2021 to RMB3.4 million for the same period in 2022, primarily due to the repayment of borrowings and a decrease in interest rates.

**Income Tax Expense**

Our Company obtained its High and New Technology Enterprises ("**HNTE**") status in year 2018 and hence is entitled to a preferential tax rate of 15% for a three-year period commencing 2018, which has been renewed for another three years.

Our subsidiaries are subject to the PRC corporate income tax at the statutory rate of 25%.

According to the relevant laws and regulations promulgated by the SAT, enterprises engaging in research and development activities are entitled to claim 175% from 2018 onwards (subsequently raised to 200% from 2021 onwards) of their research and development expenses incurred as tax deductible expenses.

The table below sets forth a reconciliation of the expected income tax calculated at the applicable corporate income tax rate and loss before income tax, with the actual corporate income tax during the Track Record Period:

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *(RMB in thousands)* | | | | |
| | | | | (unaudited) | |
| Loss before income tax | (901,131) | (1,100,093) | (2,845,773) | (397,235) | (1,042,203) |
| Share of net loss/(profit) of an associate accounted for using the equity method | – | 1,526 | (196) | 854 | (1,941) |
| Income tax credit computed at the applicable income tax rate of 25% | (225,283) | (274,642) | (711,492) | (99,095) | (261,036) |
| Tax effects of: | | | | | |
| Effect of preferential tax rate | 10,505 | 18,040 | 66,750 | 11,562 | 28,958 |
| Expenses not deductible for taxation purposes | 16,047 | 26,753 | 41,677 | 3,891 | 12,768 |
| Super deduction in respect of research and development expenditures | (20,606) | (24,392) | (102,275) | (10,924) | (34,630) |
| Tax losses and deductible temporary differences for which no deferred income tax asset was recognized | 219,337 | 254,241 | 705,340 | 94,566 | 253,940 |
| **Income tax expense** | – | – | – | – | – |

As of March 31, 2022, our Group had unused tax losses of approximately RMB5,630.6 million that can be carried forward against future taxable income.

Our Group is principally engaged the business in Mainland China, where the accumulated tax losses will normally expire within five years. Pursuant to the relevant regulations on extension for expiries of unused tax losses of HNTE issued in August 2018, the accumulated tax losses of our Company which did not expire from 2018 will have expiries extending between five to ten years therefrom.

## PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

### Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2022

*Revenue*

Our total revenue increased by 616.4% from RMB278.0 million for the three months ended March 31, 2021 to RMB1,991.8 million for the three months ended March 31, 2022. The increase was primarily due to the increase in the sales volume of EVs and parts and the higher average selling price across our portfolio as our product mix continued to evolve.

Revenue from sales of EVs and parts increased by 615.8% from RMB278.0 million for the three months ended March 31, 2021 to RMB1,990.4 million for the three months ended March 31, 2022. The increase was primarily attributable to (i) a significant increase in the sales volume of the T03 and the C11 which we started delivering in May 2020 and October 2021, respectively, and (ii) an increase in the average selling price across our portfolio as our product mix continued to evolve. We delivered 4,150 units of the T03 to customers in the first three months of 2021, and 13,767 units of the T03 and 7,791 units of the C11 in the same period in 2022.

Revenue from services amounted to nil and RMB1.5 million for the three months ended March 31, 2021 and 2022, respectively. We offered additional embedded services to buyers, including extended warranty, vehicle internet connection service, firmware over the air upgrades and free lifetime roadside assistance service.

*Cost of Sales, Gross Loss and Gross Margin*

Our cost of sales increased by 506.9% from RMB415.5 million for the three months ended March 31, 2021 to RMB2,521.3 million for the three months ended March 31, 2022; the increase was mainly driven by the increase in the cost of raw materials and consumables from RMB344.7 million for the three months ended March 31, 2021 to RMB2,271.4 million for the three months ended March 31, 2022 for our increased sales volume. As a result, our gross loss increased by 285.3% from RMB137.4 million for the three months ended March 31, 2021 to RMB529.5 million for the three months ended March 31,2022. Our gross margin improved from -49.4% for the three months ended March 31, 2021 to -26.6% for the three months ended March 31, 2022, primarily due to (i) the increase in the average selling price across our portfolio as our product mix evolves, and (ii) the significant decrease in the average manufacturing cost per vehicle, driven by the increasing economies of scale from vehicle production and delivery volume increase. The manufacturing cost comprises depreciation and amortization expenses and employee compensation expenses.

*R&D Expenses*

Our R&D expenses increased by 160.8% from RMB93.0 million for the three months ended March 31, 2021 to RMB242.5 million for the three months ended March 31, 2022. The increase in R&D expenses was driven by (i) the launch of new R&D projects in 2022 for the development of new platforms, new models and smart EV technologies, resulting in higher design and development expenses, and (ii) an increase in the number of R&D employees, resulting in higher employee compensation expenses.

*Selling Expenses*

Our selling expenses increased by 81.0% from RMB89.7 million for the three months ended March 31, 2021 to RMB162.4 million for the three months ended March 31, 2022, primarily due to the increased sales and marketing efforts to promote sales of our smart EVs.

*Administrative Expenses*

Our administrative expenses increased by 82.7% from RMB84.4 million for the three months ended March 31, 2021 to RMB154.1 million for the three months ended March 31, 2022, primarily driven by (i) the increased number of administrative personnel, in line with our business expansion, and (ii) an increase in lease expenses and office expenses.

*Net Impairment Losses on Financial Assets*

Net impairment losses on financial assets remained relatively stable at RMB0.1 million and RMB0.2 million for the three months ended March 31, 2021 and 2022, respectively.

*Other Income*

Our other income increased by 355.1% from RMB2.0 million for the three months ended March 31, 2021 to RMB9.2 million for the three months ended March 31, 2022, primarily attributable to an increase in government grants, which mainly consist of government subsidies for our business operation and R&D activities.

*Other Gains – net*

Our other gains – net increased by 68.2% from RMB4.5 million for the three months ended March 31, 2021 to RMB7.5 million for the three months ended March 31, 2022, primarily attributable to the increase in the gains on financial assets at FVPL from RMB4.3 million in the first three months of 2021 to RMB6.6 million in the same period in 2022.

*Finance (Costs)/Income – net*

Our net finance income increased by 1,501.3% from RMB1.7 million for the three months ended March 31, 2021 to RMB27.8 million for the three months ended March 31, 2022, primarily attributable to an increase in cash balance, leading to an increase in interest income from bank deposits.

*Share of (Loss)/Profit of an Associate*

Our share of net loss of RMB0.9 million for the three months ended March 31, 2021 turned into a share of net profit of RMB1.9 million for the three months ended March 31, 2022, in light of the improved performance of an associate.

*Loss for the Period*

As a result of the foregoing, our net loss increased by 162.4% from RMB397.2 million for the three months ended March 31, 2021 to RMB1,042.2 million for the same period in 2022.

**Year Ended December 31, 2021 Compared to Year Ended December 31, 2020**

*Revenue*

Our total revenue increased by 396.1% from RMB631.3 million in 2020 to RMB3,132.1 million in 2021. The increase was primarily due to the increase in sales of EVs and parts and, to a lesser extent, sales of automotive regulatory credits.

Revenue from sales of EVs and parts increased by 396.7% from RMB615.8 million in 2020 to RMB3,058.8 million in 2021. The increase was primarily attributable to the significant increase in the sales of the T03 and the C11 which we started delivery in May 2020 and October 2021, respectively. We delivered 7,013 units of the T03 to customers in 2020, and 39,149 units of the T03 and 3,965 units of the C11 in 2021.

Revenue from sales of automotive regulatory credits was RMB15.5 million and RMB71.9 million in 2020 and 2021, respectively.

Revenue from services amounted to RMB1.3 million in 2021. We offered additional embedded services to the buyers, including extended warranty, vehicle internet connection service, firmware over the air upgrades and free lifetime roadside assistance service.

*Cost of Sales, Gross Loss and Gross Margin*

Our cost of sales increased by 375.3% from RMB950.9 million in 2020 to RMB4,519.7 million in 2021, which was generally in line with the increase in production and deliveries of our smart EVs. Particularly, the costs of raw materials and consumables increased from RMB742.3 million in 2020 to RMB4,122.8 million in 2021. As a result, our gross loss increased by 334.2% from RMB319.6 million in 2020 to RMB1,387.6 million in 2021. Our gross margin improved from -50.6% in 2020 to -44.3% in 2021, primarily due to the increased margins of our smart EVs as a result of the significant decrease in the average manufacturing cost per vehicle from RMB19,851 in 2020 to RMB5,134 in 2021, driven by the increasing economies of scale as a result of vehicle production and delivery volume increase. The manufacturing cost comprises depreciation and amortization expenses and employee compensation expenses.

*R&D Expenses*

Our R&D expenses increased by 155.8% from RMB289.2 million in 2020 to RMB740.0 million in 2021. The increase in R&D expenses was driven by (i) the launch of new R&D projects in 2021 for the development of new models and smart EV technologies, resulting in higher design and development expenses, (ii) an increase in the number of R&D employees and their compensation level, and (iii) expenditure recognized in relation to the development of the C11 upon its start of mass production in the last quarter of 2021.

*Selling Expenses*

Our selling expenses increased by 176.2% from RMB154.9 million in 2020 to RMB427.9 million in 2021, primarily driven by (i) the expansion of our sales and service network from 95 stores as of December 31, 2020 to 291 stores as of December 31, 2021, and (ii) increased marketing and promotional activities, in particular for the preparation of the the launch of C11 model.

*Administrative Expenses*

Our administrative expenses increased by 116.7% from RMB183.8 million in 2020 to RMB398.3 million in 2021, primarily attributable to increases in employee compensation expenses driven by (i) the increased headcount in the administrative personnel in line with our business expansion, as well as (ii) the increase in legal, consulting and other professional fees incurred due to the financing activities in 2021, which were one-off in nature.

*Net Impairment Losses on Financial Assets*

Net impairment losses on financial assets increased from RMB0.2 million in 2020 to RMB0.3 million in 2021. The increase was primarily due to the increase in our impairment loss on trade receivables driven by the increased EV sales.

*Other Income*

Our other income decreased by 0.4% from RMB66.6 million in 2020 to RMB66.3 million in 2021, primarily attributable to a decrease in government grants, which mainly consist of government subsidies for our business operation and research and development activities.

*Other Gains – net*

Our other gains – net increased by 67.1% from RMB11.7 million in 2020 to RMB19.5 million in 2021, primarily attributable to the increase in the gains on financial assets at FVPL from RMB2.0 million in 2020 to RMB22.2 million in 2021, partially offset by a decrease in the proceeds on disposal of property, plant and equipment and intangible assets from gains of RMB10.1 million in 2020 to losses of RMB0.7 million in 2021.

*Finance (Costs)/Income – net*

Our net finance costs turned around from RMB229.0 million in 2020 to net finance income of RMB22.3 million in 2021, primarily attributable to (i) a decrease in both interest expenses on financial instruments with preferred rights at amortized cost and the interest expense on borrowings, as well as (ii) an increase in interest income from bank deposits.

*Share of (Loss)/Profit of an Associate*

Our share of net loss of an associate accounted for using the equity method turned around from RMB1.5 million in 2020 to net profit of RMB0.2 million in 2021.

*Loss for the Year*

As a result of the foregoing, our net loss increased by 158.7% from RMB1,100.1 million in 2020 to RMB2,845.8 million in 2021.

**Year Ended December 31, 2020 Compared to Year Ended December 31, 2019**

*Revenue*

Our total revenue increased by 439.7% from RMB117.0 million in 2019 to RMB631.3 million in 2020. The increase was primarily due to increased sales of EVs and parts and the sale of automotive regulatory credits.

Revenue from sales of EVs and parts increased by 426.5% from RMB117.0 million in 2019 to RMB615.8 million in 2020. The increase was primarily attributable to an increase in the sales and delivery of our smart EVs in 2020. The increase was primarily attributable to the increase in the sales of the T03 which we started delivery in May 2020. We delivered 1,037 units of smart EV to customers in 2019, and a total of 8,050 units in 2020.

Revenue from the sales of automotive regulatory credits were nil and RMB15.5 million in 2019 and 2020, respectively.

*Cost of Sales, Gross Loss and Gross Margin*

Our cost of sales increased by 315.4% from RMB228.9 million in 2019 to RMB950.9 million in 2020, which was driven by an increase in production volume and deliveries of our smart EVs. The costs of raw materials and consumables used in the production process increased from RMB154.7 million in 2019 to RMB742.3 million in 2020. As a result, our gross loss increased by 185.4% from RMB112.0 million in 2019, compared with RMB319.6 million gross loss in 2020.

Our gross margin improved significantly from -95.7% in 2019 to -50.6% in 2020, primarily due to the increased margins of our smart EVs as a result of the significant decrease in the average manufacturing cost per vehicle from RMB65,838 in 2019 to RMB19,851 in 2020, driven by increasing economies of scale as a result of vehicle production and delivery volume increase. The manufacturing cost comprises depreciation and amortization expenses and employee compensation expenses.

*R&D Expenses*

Our R&D expenses decreased by 19.3% from RMB358.3 million in 2019 to RMB289.2 million in 2020. The decrease in R&D expenses in 2020 was due to slow-down of R&D activities in the first half of 2020 and social insurance expenses for our R&D personnel exempted by the government due to the COVID-19 pandemic.

*Selling Expenses*

Our selling expenses increased by 18.1% from RMB131.1 million in 2019 to RMB154.9 million in 2020, primarily attributable to the increased marketing and promotional activities in line with the increased sales and deliveries of smart EVs.

*Administrative Expenses*

Our administrative expenses increased by 14.3% from RMB160.8 million in 2019 to RMB183.8 million in 2020, primarily attributable to an increase in employee compensation expenses.

*Net Impairment Losses on Financial Assets*

Net impairment losses on financial assets increased from RMB0.1 million in 2019 to RMB0.2 million in 2020. The increase was primarily due to the increase in our impairment loss on trade receivables driven by the increased sales volume.

*Other Income*

Our other income increased by 183.6% from RMB23.5 million in 2019 to RMB66.6 million in 2020, primarily attributable to an increase in government grants, which mainly consist of government subsidies for our business operation and research and development activities.

*Other Gains – net*

Our other gains – net increased by 47.2% from RMB7.9 million in 2019 to RMB11.7 million in 2020, primarily attributable to the gain on disposal of property, plant and equipment and intangible assets of nil and RMB10.1 million in 2019 and 2020, respectively.

*Finance (Costs)/Income – net*

Our net finance costs increased by 34.6% from RMB170.2 million in 2019 to RMB229.0 million in 2020, primarily attributable to an increase in interest expenses on financial instruments with preferred rights at amortized cost, partially offset by a decrease in interest expenses on borrowings.

### *Share of Loss of an Associate*

We invested in an associate in 2020 and recorded a share of net loss of an associate accounted for using the equity method at RMB1.5 million in 2020, primarily attributable to the net loss incurred by this associate in light of the expenses incurred for its R&D activities.

### *Loss for the Year*

As a result of the foregoing, our net loss increased by 22.1% from RMB901.1 million in 2019 to RMB1,100.1 million in 2020.

## DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets forth selected information from our consolidated balance sheets as of the dates indicated, which have been extracted from our consolidated financial statements included in Appendix I to this document:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *(RMB in thousands)* | | | |
| Total current assets | 846,419 | 1,454,511 | 8,954,853 | 8,286,435 |
| **Non-current assets:** | | | | |
| Property, plant and equipment | 1,472,073 | 1,521,665 | 1,929,028 | 2,109,523 |
| Right-of-use assets | 100,147 | 117,161 | 454,362 | 719,916 |
| Intangible assets | 17,897 | 19,853 | 419,867 | 427,150 |
| Investment in an associate accounted for using the equity method | – | 18,474 | 18,670 | 20,611 |
| Long-term bank time deposits | – | 140,107 | 717,103 | 822,646 |
| Other non-current assets[(1)] | – | - | 32,593 | 207,134 |
| Total non-current assets | 1,590,117 | 1,817,260 | 3,571,623 | 4,306,980 |
| **Total assets** | **2,436,536** | **3,271,771** | **12,526,476** | **12,593,415** |

*Note:*

(1) Our other non-current assets include prepayments for property, plant and equipment. The increase from RMB32.6 million as of December 31, 2021 to RMB207.1 million as of March 31, 2022 was primarily due to the prepayments for equipment in light of our expanding production capacity.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | | |
| Total current liabilities | 843,071 | 2,416,152 | 4,329,522 | 5,050,461 |
| **Non-current liabilities:** | | | | |
| Borrowings | 1,086,171 | 1,159,165 | 534,021 | 496,200 |
| Contract liabilities | – | – | 31,222 | 53,037 |
| Lease liabilities | 5,524 | 13,788 | 16,364 | 237,735 |
| Provisions | 1,655 | 6,081 | 55,425 | 99,841 |
| Deferred income | 128,145 | 239,781 | 329,706 | 395,170 |
| Financial instruments with preferred rights at amortized cost | 1,600,996 | – | – | – |
| Total non-current liabilities | 2,822,491 | 1,418,815 | 966,738 | 1,281,983 |
| **Total liabilities** | **3,665,562** | **3,834,967** | **5,296,260** | **6,332,444** |
| **Net (liabilities)/assets** | **(1,229,026)** | **(563,196)** | **7,230,216** | **6,260,971** |
| **Total (deficits)/equity and liabilities** | **2,436,536** | **3,271,771** | **12,526,476** | **12,593,415** |

We recorded net liabilities of RMB1,229.0 million and RMB563.2 million as of December 31, 2019 and 2020, respectively. The decrease was mainly attributable to the derecognition of financial instruments with preferred rights at amortized cost and share-based payment.

Our net liabilities as of December 31, 2020 turned to net assets of RMB7,230.2 million as of December 31, 2021. The improved net assets position was primarily due to the increase in share capital and reserves as a result of capital contributions from equity holders and issuance of shares. Our net assets positions remained relatively stable at RMB7,230.2 million and RMB6,261.0 million as of December 31, 2021 and March 31, 2022, respectively.

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

| | As of December 31, | | | As of March 31, | As of July 31, |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2022 |
| | *(RMB in thousands)* | | | | |
| | | | | | (unaudited) |
| **Current assets:** | | | | | |
| Inventories | 165,178 | 182,088 | 749,471 | 1,115,473 | 1,211,710 |
| Trade and notes receivables | 19,048 | 233,229 | 782,250 | 986,031 | 1,338,986 |
| Contract assets | – | – | 28,497 | 42,767 | 34,905 |
| Other current assets | 234,094 | 420,849 | 420,518 | 609,723 | 319,589 |
| Financial assets at fair value through profit or loss | 181,606 | 76,042 | 1,260,078 | 301,349 | 735,000 |
| Restricted cash | 40,803 | 441,497 | 1,376,072 | 953,952 | 1,131,176 |
| Cash and cash equivalents | 205,690 | 100,806 | 4,337,967 | 4,277,140 | 3,615,162 |
| **Total current assets** | **846,419** | **1,454,511** | **8,954,853** | **8,286,435** | **8,386,528** |
| **Current liabilities:** | | | | | |
| Trade and notes payables | 195,691 | 738,935 | 2,596,106 | 3,493,080 | 5,066,138 |
| Other payables and accruals | 427,699 | 376,086 | 825,326 | 767,780 | 1,078,552 |
| Borrowings | 207,630 | 1,242,909 | 340,166 | 275,652 | 831,895 |
| Advances from customers | 5,331 | 41,667 | 503,213 | 454,935 | 284,067 |
| Lease liabilities, current | 3,229 | 13,376 | 24,559 | 16,059 | 44,352 |
| Derivative financial instruments | 2,842 | – | – | – | – |
| Provisions | 649 | 3,179 | 36,424 | 37,635 | 80,779 |
| Contract liabilities | – | – | 3,728 | 5,320 | 28,318 |
| **Total current liabilities** | **843,071** | **2,416,152** | **4,329,522** | **5,050,461** | **7,414,101** |
| **Net current assets/(liabilities)** | **3,348** | **(961,641)** | **4,625,331** | **3,235,974** | **972,427** |

Our net current assets decreased from RMB3,236.0 million as of March 31, 2022 to RMB972.4 million as of July 31, 2022. This was primarily due to (i) an increase of RMB1,573.1 million in trade and notes payables, (ii) an increase of RMB556.2 million in borrowings, (iii) an increase of RMB310.8 million in other payables and accruals, and (iv) a decrease of RMB662.0 million in cash and cash equivalents, partially offset by (i) an increase of RMB433.7 million in financial assets at fair value through profit or loss, (ii) an increase of RMB353.0 million trade and notes receivables, (iii) an increase of RMB177.2 million in restricted cash, and (iv) a decrease of RMB170.9 million in advances from customers.

Our net current assets decreased from RMB4,625.3 million as of December 31, 2021 to RMB3,236.0 million as of March 31, 2022. This was primarily due to (i) a decrease of RMB958.7 million in financial assets at fair value through profit or loss, (ii) an increase of RMB897.0 million in trade and notes payables, (iii) a decrease of RMB422.1 million in restricted cash, and (iv) a decrease of RMB60.8 million in cash and cash equivalents, partially offset by (i) an increase of RMB366.0 million in inventories, (ii) an increase of RMB203.8 million in trade and notes receivables, and (iii) an increase of RMB189.2 million in other current assets.

We recorded net current assets of RMB4,625.3 million as of December 31, 2021, compared to our net current liabilities of RMB961.6 million as of December 31, 2020. Our net current assets position improved, primarily due to (i) an increase of RMB4,237.2 million in cash and cash equivalents, primarily attributable to the positive net cash flows provided by our financing activities, (ii) an increase of RMB1,184.0 million in financial assets at fair value through profit or loss, (iii) an increase of RMB934.6 million in restricted cash, and (iv) a decrease of RMB902.7 million in borrowings, partially offset by an increase of RMB1,857.2 million in trade payables.

Our net current assets decreased from RMB3.3 million as of December 31, 2019 to net current liabilities of RMB961.6 million as of December 31, 2020, primarily due to (i) an increase of RMB1,035.3 million in borrowings, and (ii) an increase of RMB543.2 million in trade payables, partially offset by an increase of RMB400.7 million in restricted cash.

**Inventories**

Our inventories primarily comprise (i) raw materials and spare parts, and (ii) finished goods. Raw materials and spare parts primarily consist of materials for mass production. Finished goods primarily consist of smart EVs ready for transit at production plants, smart EVs in transit, new smart EVs available for immediate sale at our delivery and service centers, vehicle parts and charging piles.

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

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | (RMB in thousands) | | | |
| Raw materials and spare parts | 132,667 | 196,506 | 774,947 | 1,235,849 |
| Finished goods | 91,166 | 68,245 | 301,822 | 271,998 |
| **Subtotal** | **223,833** | **264,751** | **1,076,769** | **1,507,847** |
| Less: provision for impairment of raw material | (34,765) | (61,350) | (253,273) | (330,880) |
| Less: provision for impairment of finished goods | (23,890) | (21,313) | (74,025) | (61,494) |
| **Subtotal** | **(58,655)** | **(82,663)** | **(327,298)** | **(392,374)** |
| **Total** | **165,178** | **182,088** | **749,471** | **1,115,473** |

Our inventories increased from RMB165.2 million as of December 31, 2019 to RMB182.1 million as of December 31, 2020, and further increased to RMB749.5 million and RMB1,115.5 million as of December 31, 2021 and March 31, 2022, respectively. Such increase was driven by the launch of new smart EV models, increase in production volume and vehicle delivery to meet robust customer demand throughout the Track Record Period. In light of the expected ramp up in production and sales of new smart EV models, we strategically stocked up on certain raw materials for our vehicle production in 2021, including electronic components and battery cells.

During the Track Record Period, we recognized provision for impairment of inventories of RMB58.7 million, RMB82.7 million, RMB327.3 million and RMB392.4 million, respectively, which represented 26.2%, 31.2%, 30.4% and 26.0% of the corresponding inventory balance at the end of each period. The provision for impairment of inventories in 2019, 2020, 2021 and the three months ended March 31, 2022 was made to net realizable value of our inventories, which include both raw materials and finished goods. Our management reviews the condition of inventories at each reporting date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. We carry out an inventory review on a product-by-product basis and make allowances with reference to the latest market prices and current market conditions. As the number of smart EVs delivered to customers increased from 1,037 in 2019 to 8,050 in 2020, and further to 43,748 in 2021, and from 4,235 for the three months ended March 31, 2021 to 21,579 for the three months ended March 31, 2022, the book value of inventories increased from RMB223.8 million as of December 31, 2019 to RMB264.8 million as of December 31, 2020, and further to RMB1,076.8 million as of December 31, 2021 and RMB1,507.8 million as of March 31, 2022. As we incurred gross loss in relation to the sales of vehicles, the shortfall between net realizable value of raw materials used to produce the vehicles and the vehicles sold (being the selling price of the vehicles sold less the estimated cost to complete production and the sale) and book value of such inventories is recognized as impairment of inventories. Accordingly, the provision for impairment of inventories increased from RMB58.7 million in 2019 to RMB82.7 million in 2020, and further to RMB327.3 million and RMB392.4 million in 2021 and the first quarter of 2022, as a result of our expanded business.

The following table sets forth our inventory turnover days for the periods indicated:

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *(days)* | | | |
| Inventory turnover days[(1)] | 131.9 | 66.6 | 37.6 | 33.7 |

*Note:*

(1) Calculated using the average of opening balance and closing balance of the inventories for such years divided by cost of sales for the relevant years and multiplied by the number of days during such periods (i.e. 365 days for one fiscal year and 91 days for three months of a fiscal year).

During the Track Record Period, our inventory turnover days decreased from 131.9 days in 2019 to 66.6 days in 2020, and further decreased to 37.6 days in 2021 and 33.7 days for the three months ended March 31, 2022, primarily due to the significant increase in sales volume of our smart EVs as well as our make-to-order production approach to keep our inventories at low level.

As of July 31, 2022, RMB1,310.8 million, or approximately 86.9% of our inventory balance as of March 31, 2022 had been sold or utilized.

**Trade and Notes Receivables**

Our trade and notes receivables mainly comprise government subsidies for NEV vehicles, deposits to lessors and deposit for a single borrowing transaction. The following table sets forth a breakdown of our trade and notes receivables as of the dates indicated:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | | |
| **Notes receivables:** | 807 | 65,552 | – | 11 |
| Provisions for impairment | – | (32) | – | – |
| **Subtotal** | **807** | **65,520** | **–** | **11** |
| **Trade receivables:** | | | | |
| Due from related parties | 1,800 | 5,815 | 6,534 | 13 |
| Governmental subsidies for promotion of new energy vehicles | 16,452 | 162,022 | 776,188 | 986,654 |
| Gross trade receivables | 18,252 | 167,837 | 782,722 | 986,667 |
| Provisions for impairment | (11) | (128) | (472) | (647) |
| **Subtotal** | **18,241** | **167,709** | **782,250** | **(986,020)** |
| **Total** | **19,048** | **233,229** | **782,250** | **986,031** |

Our trade and notes receivables increased from RMB19.0 million as of December 31, 2019 to RMB233.2 million as of December 31, 2020, and further increased to RMB782.3 million as of December 31, 2021 and RMB986.0 million as of March 31, 2022, primarily due to the increased government subsidies driven by our strong sales growth during the Track Record Period.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | | |
| Up to 6 months | 18,252 | 127,923 | 405,400 | 435,849 |
| 6 months to 1 year | – | 22,213 | 209,485 | 324,611 |
| 1 to 2 years | – | 17,701 | 150,136 | 205,978 |
| 2 to 3 years | – | – | 17,701 | 20,229 |
| **Trade receivables** | **18,252** | **167,837** | **782,722** | **986,667** |

Our trade receivables aged over one year increased significantly from nil as of December 31, 2019 to RMB17.7 million as of December 31, 2020, and further to RMB167.8 million as of December 31, 2021 and RMB226.2 million as of March 31, 2022, primarily due to the increase of government subsidies associated with the higher sales volume of our smart EVs. Vast majority of our trade receivables aged over one year as of December 31, 2021, because the application of the government subsidies is subject to certain conditions imposed by the PRC government including that (i) a single application for subsidy settlement is made for 10,000 vehicles and (ii) the relevant NEVs must be sold for not more than RMB300,000 before the subsidy. Given such conditions to the payment of the government subsidies, we are expected to submit our application for the payments of accumulated subsidies in 2022. As the government subsidies are with high certainty, we do not expect any material recoverability issues for trade receivables over one year and we consider our provision for trade receivables sufficient.

As of July 31, 2022, our Group received an aggregate payment of RMB13.0 thousand from related parties, or approximately 0.0% of the trade receivables of our Group as of March 31, 2022, and we received an aggregate of RMB107.4 million in government subsidies, or 10.9% of the trade receivables of our Group, as of March 31, 2022. We expect to receive the accumulated government subsidies for vehicles sold before March 31, 2022 at the end of 2022. As the government subsidies are provided according to government policies, which are public and of high certainty, we do not foresee any material recoverability issue for trade receivables, and sufficient provision has been made in this regard.

**Contract Assets**

Our contract assets represent our rights to consideration for obligations of completed contracts which are conditional on certain requirements for the payment of government subsidies. Since 2019, the purchases of new energy commercial vehicles are required to accumulate a mileage of 20,000 kilometers in order to qualify for subsidies. See "Regulatory Overview — (VI) Favorable Policies Relating to New Energy Vehicles in China — 1. Government Subsidies for New Energy Vehicle Purchasers." Our contract assets amounted to RMB42.8 million as of March 31, 2022.

As of July 31, 2022, RMB5.1 million, or approximately 12.0% of our Group's contract assets as of March 31, 2022 had been certified.

**Other Current Assets**

The following table sets forth our other current assets as of the dates indicated:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *(RMB in thousands)* | | | |
| **Other receivables:** | | | | |
| – Refundable deposits | 3,013 | 3,983 | 8,304 | 10,652 |
| – Due from related parties | 601 | 5,485 | 5,767 | 174 |
| – Payments on behalf of employees | 182 | 128 | – | 126 |
| – Others | 116 | 29 | 830 | 880 |
| Gross other receivables | 3,912 | 9,625 | 14,901 | 11,832 |
| Provisions for impairment | (90) | (153) | (118) | (117) |
| **Subtotal** | **3,822** | **9,472** | **14,783** | **11,715** |
| **Prepayments for:** | | | | |
| – Raw materials to third parties | 22,214 | 192,661 | 99,760 | 213,404 |
| – Raw materials to related parties | – | 982 | – | 488 |
| – Short-term lease rental expenses | 994 | 79 | 1,602 | 5,126 |
| – Other taxes | 151 | 151 | 13 | – |
| – Other operating expenses | 679 | 605 | 8,405 | 8,161 |
| Gross prepayments | 24,038 | 194,478 | 109,780 | 227,179 |
| Prepaid listing expenses | – | – | 4,585 | 8,735 |
| Input VAT to be deducted | 206,234 | 216,899 | 291,370 | 362,094 |
| **Total other current assets** | **234,094** | **420,849** | **420,518** | **609,723** |

Other current assets mainly consist of (i) input VAT to be deducted and (ii) prepayments for purchase of raw materials.

Our other current assets increased by 79.8% from RMB234.1 million as of December 31, 2019 to RMB420.8 million as of December 31, 2020, primarily due to an increase of RMB171.4 million in our prepayments for purchase of raw materials in light of the increased sales and delivery of the T03. Our other current assets remained stable at

RMB420.8 million, RMB420.5 million and RMB609.7 million as of December 31, 2020 and 2021 and March 31, 2022, respectively.

**Financial Assets at Fair Value through Profit or Loss**

Financial assets at fair value through profit or loss consist of investment in current assets comprise structured deposits and low risk wealth management products that are issued by major reputable commercial banks in the PRC, namely Industrial and Commercial Bank of China, China Construction Bank, China Everbright Bank, Huaxia Bank, Bank of Hangzhou, Bank of Jiangsu and Shanghai Pudong Development Bank. Such products were not principal-protected. We managed and evaluated the performance of investments on a fair value basis in accordance with our business needs and investment strategy. See Note 21 to the Accountant's Report in the Appendix I to this document.

We endeavor to increase the return of idle cash and bank balances by placing investments in structured deposits and wealth management products with high liquidity and low risk such that our risk exposure arising from such investments is controlled. Our investment policy in relation to the purchase of such financial assets is to monitor our level of idle cash and bank balances and, based on the working capital required at the relevant time, utilize such idle cash to increase the return. In addition, in order to monitor and control the investment risks associated with our portfolio of structured deposits and low risk wealth management products, we have adopted a comprehensive set of internal policies and guidelines to manage our investments. Our finance department is responsible for proposing, analyzing and evaluating potential investment in such products. Our management, including our finance department, has extensive experience in managing the financial aspects of an enterprise's operations. In particular, Mr. Cho Kwong Lun Kelvin, our vice chairman and chief financial officer, has approximately 20 years of experience in financial services. Prior to making any material investments in structured deposits and low risk wealth management products or modifying our existing investment portfolio, the proposal shall be reviewed and approved by Mr. Zhu Jiangming, our Chairman and Chief Executive Officer. According to our Articles of Association, such decision does not require a decision by the Board.

Our investment strategy related to such products focuses on minimizing the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, while generating desirable investment returns. To control our risk exposure, we make investment decisions related to structured deposits and low risk wealth management products, after thoroughly considering a number of factors, including, but not limited to, macro-economic environment, general market conditions, risk control and credit of issuing financial institutions, our own working capital conditions, and the expected profit or potential loss of the investment.

Upon [**REDACTED**], we intend to continue our investments, such as structured deposits and low risk wealth management products, strictly in accordance with our internal policies (which include approval by Mr. Zhu Jiangming, our Chairman and Chief Executive Officer in respect of material investments in such products), Articles of Association and, to the extent that an investment in material structured deposits or low risk wealth management products is a notifiable transaction under Chapter 14 of the Listing Rules, the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules, including the announcement, reporting and/or shareholders' approval requirements (if applicable).

In relation to the valuation of the financial assets at fair value through profit or loss, we have adopted the following procedures:

(i) reviewed the terms of the relevant wealth management products;

(ii) reviewed the fair value measurement assessment of the relevant wealth management products presented by our finance department and carefully considered all information available and various applicable valuation techniques and processes in determining the valuation of the relevant wealth management products; and

(iii) reviewed the fair value measurement of the financial investments, taking into account the valuation techniques and assumptions of unobservable inputs in order to determine if the fair value measurement of level 3 investments is in compliance with the applicable IFRS.

Based on the above procedures, our Directors are of the view that the valuation analysis is fair and reasonable, and our financial statements are properly prepared. In relation to the valuation of the financial assets categorized with level 3 fair value measurements, the Joint Sponsors have conducted relevant due diligence work, including, but not limited to: (i) review of relevant notes in the Accountant's Report as contained in Appendix I to this document; and (ii) those matters discussed with the Company about the methodology and procedures adopted for the valuation of the financial assets. Having considered the work done by the Directors, the audit opinion on the historical financial information set forth in the Accountant's Report, and the relevant due diligence carried out by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would cause them to cast doubt on the reasonableness of the above-mentioned Directors' view.

Details of the fair value measurement of financial assets at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, and the relationship of unobservable inputs to fair value are disclosed in Note 3.3 to the Accountant's Report in Appendix I to this document. The Reporting Accountant has carried out audit procedures in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our Group's Historical Financial Information for the Track

Record Period as a whole in Appendix I to this document. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-1 to I-3 of Appendix I to the Document.

The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated, respectively:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *(RMB in thousands)* | | | |
| Investments in wealth management products issued by banks | 181,606 | 76,042 | 1,260,078 | 301,349 |

Our financial assets at fair value through profit or loss decreased by 58.1% from RMB181.6 million as of December 31, 2019 to RMB76.0 million as of December 31, 2020, primarily due to the disposals of wealth management products. Our financial assets at fair value through profit or loss subsequently increased by 1,557.1% from RMB76.0 million as of December 31, 2020 to RMB1,260.1 million as of December 31, 2021, primarily due to an increase in the investment of wealth management products in light of our financing activities in 2021. Our financial assets at fair value through profit or loss subsequently decreased by 76.1% from RMB1,260.1 million as of December 31, 2021 to RMB301.3 million as of March 31, 2022, primarily due to the redemption of wealth management products upon maturity.

**Trade and Notes Payables**

Trade and notes payables mainly consist of payables for the purchase of raw materials. Trade and notes payables are presented as current liabilities if payment is due within one year or less (or within the normal operating cycle of the business if longer). The following table sets forth a breakdown of our trade and notes payables as of the dates indicated:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *(RMB in thousands)* | | | |
| **Trade payables** | | | | |
| – Payables for materials | 155,514 | 280,038 | 1,245,389 | 2,051,272 |
| **Notes payables** | | | | |
| – Payables for materials | 40,177 | 458,897 | 1,350,717 | 1,441,808 |
| **Total** | **195,691** | **738,935** | **2,596,106** | **3,493,080** |

Our trade and notes payables increased by 277.6% from RMB195.7 million as of December 31, 2019 to RMB738.9 million as of December 31, 2020, and further increased by 251.3% to RMB2,596.1 million as of December 31, 2021 and then by 34.6% to RMB3,493.1 million as of March 31, 2022. The increasing trend was primarily due to an increase in the purchase of raw materials, driven by the increase in production volume of smart EVs.

As of July 31, 2022, RMB2,899.1 million, or approximately 83.0% of our trade and notes payables as of March 31, 2022 had been settled.

### Other Payables and Accruals

Other payables and accruals primarily consist of payables for purchase of property, plant and equipment, payroll and welfare payables, accrued expenses, deposit from suppliers, payables for design and development services, and other payables. Our other payables and accruals decreased from RMB427.7 million as of December 31, 2019 to RMB376.1 million as of December 31, 2020, primarily due to a decrease in payables for the purchases of property, plant and equipment, and subsequently increased significantly to RMB825.3 million as of December 31, 2021, primarily due to (i) an increase in accrued expenses, and (ii) an increase in payables for design and development services. Our other payables and accruals subsequently decreased from RMB825.3 million as of December 31, 2021 to RMB767.8 million as of March 31, 2022, primarily due to the settlement of certain payables in the first three months of 2022.

### Advances from Customers

Advances from customers consist of the initial refundable deposits for orders received from customers prior to the signing of vehicle purchase agreements. Our advances from customers increased by 681.6% from RMB5.3 million as of December 31, 2019 to RMB41.7 million as of December 31, 2020, and further increased by 1,107.7% to RMB503.2 million as of December 31, 2021. This is in line with the increased sales of smart EVs. Our advances from customers subsequently decreased by 9.6% from RMB503.2 million as of December 31, 2021 to RMB454.9 million as of March 31, 2022, which was mainly attributable to the fulfillment of our orders and delivery of our smart EVs, such that the advances from customers were recognized as revenue.

As of July 31, 2022, RMB283.3 million, or approximately 62.3% of our Group's advances from customers as of March 31, 2022 had been recognized as revenue.

### Contract Liabilities

Our contract liabilities represent the advance payments from our customers while the underlying embedded services are yet to be provided including extended one-year or lifetime warranty, vehicle internet connection service, firmware over the air upgrades and free lifetime roadside assistance service. Our contract liabilities amounted to RMB3.7 million and RMB5.3 million as of December 31, 2021 and March 31, 2022, respectively.

### Derivative Financial Instruments

Derivative financial instruments consist of foreign exchange forward contracts. Our derivative financial instruments as of December 31, 2019 amounted to RMB2.8 million.

**Provisions**

Service warranties are made for estimated warranty claims in respect of smart EVs sold which are still under warranty at the end of each of the Track Record Period. These claims are expected to be settled in the coming years. We provide warranties for certain smart EVs and undertake the obligation to repair or replace items that fail to perform satisfactorily. The amount of provisions for smart EV warranties is estimated based on the sales volume and industry experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and is revised when appropriate. Such provisions increased from RMB2.3 million as of December 31, 2019 to RMB9.3 million as of December 31, 2020, and further increased to RMB91.8 million and RMB137.5 million as of December 31, 2021 and March 31, 2022, which is in line with the increased sales of smart EV.

**Impairment testing for property, plant and equipment, right-of-use assets and intangible assets**

The following table sets forth the property, plant and equipment, right-of-use assets and intangible assets as of the dates indicated:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *(RMB in thousand)* | | | |
| Property, plant and equipment | 1,472,073 | 1,521,665 | 1,929,028 | 2,109,523 |
| Right-of-use assets | 100,147 | 117,161 | 454,362 | 719,916 |
| Intangible assets | 17,897 | 19,853 | 419,867 | 427,150 |
| | 1,590,117 | 1,658,679 | 2,803,257 | 3,256,589 |

Our management has conducted an impairment review on the property, plant and equipment, right-of-use assets and intangible assets (collectively, the "**long-term key operating assets**") as of December 31, 2019, 2020 and 2021 and March 31, 2022 according to IAS 36 "Impairment of assets." We considered that the long-term key operating assets are all attributable to one cash generating unit ("**CGU**"), which is the CGU for the production, research and development and sales of EVs. For the purpose of impairment review, the recoverable amount of the CGU is determined based on the higher amount of the fair value less cost of disposal ("**FVLCD**") and value-in-use calculations.

Based on the result of impairment testing of the long-term key operating assets, the estimated recoverable amount of the CGU far exceeded its carrying amount, and the headroom was approximately RMB1,044.5 million, RMB4,770.6 million, RMB10,499.2 million and RMB11,167.9 million as of December 2019, 2020 and 2021 and March 31, 2022, respectively.

As of December 31, 2019, 2020 and 2021, the recoverable amount of aforementioned CGU was determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a ten-year period. We consider the length of the forecast period to be appropriate as it generally takes longer for a new electric vehicle company to reach a stable growth state, compared to companies in other industries, especially taking into account the fact that the new electric vehicle industry in China is an emerging industry with fast growth in the recent years and that our Group is still in the initial stage of rapid growth. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process we have established. We have engaged an independent external valuer to assess the recoverable amounts of our long-term key operating assets and have leveraged their extensive experience in the automotive industry to obtain a forecast based on past performance and their expectation of our future business plans and market developments. See Note 15(d) to the Accountant's Report in Appendix I to this document.

Based on the results of the above-mentioned assessments as conducted by our management and the independent external valuer, our Directors concluded that no impairment loss on the aforementioned long-term key operating assets are required to be recognized as of December 31, 2019, 2020 and 2021 and March 31, 2022.

The following table sets out the key assumptions we adopted in the impairment assessment:

| | |
|---|---|
| Three months ended March 31, 2022 | |
| Gross margin (%) | -2.9% to 18.3% |
| Annual growth rate (%) | 4.2% to 403.9% |
| Pre-tax discount rate (%) | 24.65% |
| Year ended December 31, 2021 | |
| Gross margin (%) | -8.1% to 18.3% |
| Annual growth rate (%) | 4.6% to 467.2% |
| Pre-tax discount rate (%) | 24.87% |
| Year ended December 31, 2020 | |
| Gross margin (%) | -44.3% to 18.2% |
| Annual growth rate (%) | 4.2% to 467.2% |
| Pre-tax discount rate (%) | 26.32% |
| Year ended December 31, 2019 | |
| Gross margin (%) | -50.6% to 18.2% |
| Annual growth rate (%) | 4.1% to 467.2% |
| Pre-tax discount rate (%) | 28.00% |

The budgeted gross margins used in the impairment testing were determined by our management, based on past performance and its expectation for market development. The expected revenue growth rate and gross margins are based on the business projections approved by our Directors. Discount rates reflect market assessments of the time value and the specific risks relating to the EV industry.

If the gross margin for each year during the forecast period used in the value-in-use calculation had been 5% lower than our estimates on December 31, 2019, 2020 and 2021 and March 31, 2022 the estimated recoverable amount would still exceed its carrying amount by approximately RMB222,226,000, RMB3,487,268,000, RMB8,514,243,000 and RMB8,992,728,000, respectively. If the budgeted revenue growth rate for each year during the forecast period used in the value-in-use calculation had been 5% lower than our estimates on December 31, 2019, 2020 and 2021 and March 31, 2022 the estimated recoverable amount would still exceed its carrying amount by approximately RMB672,066,000, RMB4,027,082,000, RMB9,876,952,000 and RMB10,486,090,000, respectively. If the pre-tax discount rate applied to the cash flow projections had been 5% higher than management's estimates on December 31, 2019, 2020 and 2021 and March 31, 2022, the estimated recoverable amount would still exceed its carrying amount by approximately RMB736,459,000, RMB4,280,315,000, RMB9,852,768,000 and RMB10,414,403,000, respectively.

As such, our Directors concluded that any reasonably possible changes to the key assumptions as adopted in the impairment assessment would not result in any impairment charge to be recognized.

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2022, we had RMB5,532.4 million in cash and cash equivalents, restricted cash and wealth management products. Our cash and cash equivalents primarily consist of cash at banks under RMB and USD denominations.

Our net operating cash outflow for the year ended December 31, 2019 was RMB674.7 million, compared with RMB731.9 million for the year ended December 31, 2020. Our operating cash outflow for the year ended December 31, 2021 was RMB1,018.6 million. Our net operating cash outflow for the three months ended March 31, 2021 was RMB138.6 million, compared with RMB385.2 million for the three months ended March 31, 2022.

### Cash Flows

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

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *(RMB in thousands)* | | | (unaudited) | |
| Operating loss before changes in working capital | (612,252) | (613,889) | (2,113,537) | (276,694) | (812,664) |
| Working capital changes | (64,175) | (119,238) | 1,065,432 | 135,766 | 403,498 |
| Interest received from cash at banks | 1,693 | 1,187 | 29,468 | 2,282 | 23,952 |
| Net cash used in operating activities | (674,734) | (731,940) | (1,018,637) | (138,646) | (385,214) |
| Net cash (used in)/generated from investing activities | (419,876) | (296,732) | (3,003,239) | (2,368,908) | 504,265 |
| Net cash generated from/(used in) financing activities | 690,088 | 923,831 | 8,259,126 | 3,143,723 | (179,965) |
| Net (decrease)/increase in cash and cash equivalents | (404,522) | (104,841) | 4,237,250 | 636,169 | (60,914) |
| Cash and cash equivalents at the beginning of the year/period | 607,470 | 205,690 | 100,806 | 100,806 | 4,337,967 |
| Exchange gain/(losses) on cash and cash equivalents | 2,742 | (43) | (89) | 132 | 87 |
| Cash and cash equivalents at the end of the year/period | 205,690 | 100,806 | 4,337,967 | 737,107 | 4,277,140 |

### Net Cash Used in Operating Activities

Net cash used in operating activities primarily comprises our loss before income tax for the period adjusted by: (i) non-cash and non-operating items, and (ii) changes in working capital. We had negative cash flows from our operating activities during the Track Record Period, primarily due to (i) our continuous investment in our business development and customer acquisition, and (ii) expansion of our headcounts.

For the three months ended March 31, 2022, our net cash used in operating activities was RMB385.2 million. Our net cash used in operating activities is calculated by adjusting our loss before income tax of RMB1,042.2 million by non-cash and other items to arrive at an operating loss before changes in working capital of RMB812.7 million. Our movements in working capital primarily reflect (i) increase in trade and notes payables of RMB897.0 million, (ii) decrease in restricted cash of RMB422.1 million and (iii) increase in contract liabilities of RMB23.4 million, partially offset by (i) increase in inventories of RMB431.1 million, (ii) increase in trade and notes receivables of RMB204.0 million, (iii) increase in other current assets of RMB188.8 million, (iv) decrease in advances from customers of RMB48.3 million, (v) decrease in other payables and accruals of RMB43.9 million, (vi) increase in contract assets of RMB14.3 million, and (vii) decrease in provisions of RMB8.7 million.

In 2021, our net cash used in operating activities was RMB1,018.6 million. Our net cash used in operating activities is calculated by adjusting our loss before income tax of RMB2,845.8 million by non-cash and other items to arrive at an operating loss before changes in working capital of RMB2,113.5 million. Our movements in working capital primarily reflect (i) increase in trade and notes payables of RMB1,857.4 million, (ii) increase in other payables and accruals of RMB511.9 million, (iii) increase in advances from customers of RMB461.5 million, (iv) decrease in restricted cash of RMB324.6 million and (v) increase in contract liabilities of RMB35.0 million, partially offset by (i) increase in inventories of RMB812.0 million, (ii) increase in trade and notes receivables of RMB614.3 million and (iii) decrease in provisions of RMB22.1 million.

In 2020, our net cash used in operating activities was RMB731.9 million. Our net cash used in operating activities is calculated by adjusting our loss before income tax of RMB1,100.1 million by non-cash and other items to arrive at an operating loss before changes in working capital of RMB613.9 million. Our movements in working capital primarily reflect (i) decrease in restricted cash of RMB400.7 million, (ii) increase in other current assets of RMB181.3 million, (iii) increase in trade and notes receivables of RMB149.3 million, and (iv) increase in inventories of RMB40.9 million, partially offset by (i) increase in trade and notes payables of RMB543.2 million, (ii) increase in deferred income of RMB53.8 million, (iii) increase in other payables and accruals of RMB45.0 million, and (iv) increase in advances from customers of RMB36.3 million.

In 2019, our net cash used in operating activities was RMB674.7 million. Our net cash used in operating activities is calculated by adjusting our loss before income tax of RMB901.1 million by non-cash and other items to arrive at an operating loss before changes in working capital of RMB612.3 million. Our movements in working capital primarily reflect (i) increase in inventories of RMB223.5 million, (ii) increase in other current assets of RMB53.0 million, (iii) decrease in restricted cash of RMB34.9 million, and (iv) increase in trade and notes receivables of RMB19.1 million, partially offset by (i) increase in trade and notes payables of RMB170.8 million, and (ii) increase in other payables and accruals of RMB84.5 million.

**Net Cash (Used in)/Generated from Investing Activities**

For the three months ended March 31, 2022, our net cash generated from investing activities was RMB504.3 million. This was attributable to (i) proceeds from the disposal of financial assets at fair value through profit or loss of RMB1,805.3 million, (ii) government grants received in relation to acquisition of non-current assets of RMB70.8 million, (iii) proceeds from disposal of property, plant and equipment of RMB4.6 million, and (iv) interest received from long-term bank time deposits of RMB1.7 million, partially offset by (i) payments for financial assets at fair value through profit or loss of RMB840.0 million, (ii) payments for property, plant and equipment of RMB427.3 million, (iii) payments for long-term bank time deposits of RMB100.0 million, and (iv) payments for intangible assets of RMB10.9 million.

In 2021, our net cash used in investing activities was RMB3,003.2 million. This was attributable to (i) payments for financial assets at fair value through profit or loss of RMB4,788.0 million, (ii) an increased payments for long-term bank time deposits of RMB2,270.0 million, (iii) payments for property, plant and equipment of RMB691.1 million, (iv) payments for intangible assets of RMB511.5 million, and (v) payments for land use rights of RMB322.9 million, partially offset by (i) proceeds from the disposal of financial assets at fair value through profit or loss of RMB3,626.2 million, (ii) proceeds from long-term bank term deposits of RMB1,710.0 million, (iii) government grants received in relation to acquisition of non-current assets of RMB98.9 million, and (iv) interest received from long-term bank time deposits of RMB37.5 million.

In 2020, our net cash used in investing activities was RMB296.7 million. This was primarily attributable to (i) payments for financial assets at fair value through profit or loss of RMB1,142.4 million, (ii) payments for property, plant and equipment of RMB306.2 million, (iii) payments for long-term bank time deposits of RMB140.0 million, (iv) payment for investment in an associate of RMB20.0 million and (v) payments for intangible assets of RMB16.2 million, partially offset by (i) proceeds from disposals of financial assets at fair value through profit or loss of RMB1,249.9 million and (ii) government grants received in relation to acquisition of non-current assets of RMB62.6 million.

In 2019, our net cash used in investing activities was RMB419.9 million. This was primarily attributable to (i) payments for financial assets at fair value through profit or loss of RMB1,589.6 million, (ii) payments for property, plant and equipment of RMB407.8 million, and (iii) payments for intangible assets of RMB11.1 million, partially offset by (i) proceeds from disposals of financial assets at fair value through profit or loss of RMB1,557.3 million, and (ii) government grants received in relation to acquisition of non-current assets of RMB30.1 million.

**Net Cash Generated from/(Used in) Financing Activities**

For the three months ended March 31, 2022, our net cash used in financing activities was RMB180.0 million, primarily attributable to (i) repayments of borrowings of RMB101.7 million, and (ii) payments of lease liabilities of RMB72.9 million.

In 2021, our net cash generated from financing activities was RMB8,259.1 million, primarily attributable to (i) proceeds from issuance of shares of RMB6,080.5 million, (ii) proceeds from contributions from equity holders of RMB4,341.7 million, (iii) proceeds from loans from equity holders of RMB340.0 million, and (iv) proceeds from borrowings of RMB138.3 million, partially offset by (i) repayments of loans and interests to equity holders of RMB1,151.3 million, (ii) repayments of borrowing of RMB791.0 million, (iii) placement of restricted cash for bank borrowings of RMB610.0 million, (iv) interest paid for borrowings of RMB58.8 million and (v) principal payments of lease liabilities of RMB28.0 million.

In 2020, our net cash generated from financing activities was RMB923.8 million, primarily attributable to (i) proceeds from loans from equity holders of RMB800.0 million and (ii) proceeds from borrowings of RMB470.0 million, partially offset by (i) repayments of borrowings of RMB235.9 million, (ii) interest paid for borrowings of RMB97.7 million, and (iii) principal payments of lease liabilities of RMB11.5 million. Such loans from equity holders reflects our shareholders' commitment to support our business expansion.

In 2019, our net cash generated from financing activities was RMB690.1 million, primarily attributable to (i) proceeds from borrowings of RMB444.1 million, and (ii) proceeds from issuance of financial instruments to investors of RMB361.0 million, partially offset by (i) interest paid for borrowings of RMB80.8 million, and (ii) repayments of borrowings of RMB28.9 million.

## INDEBTEDNESS

### Borrowings

As of December 31, 2019, 2020 and 2021, and March 31 and July 31, 2022, we had total borrowings of RMB1,293.8 million, RMB2,402.1 million, RMB874.2 million, RMB771.9 million and RMB1,039.2 million, respectively.

The following table sets forth a breakdown of our borrowings as of the dates indicated:

| | As of December 31, | | | As of March 31, | As of July 31, |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2022 |
| | (RMB in thousands) | | | | |
| | | | | | (unaudited) |
| **Borrowings included in non-current liabilities:** | | | | | |
| Bank borrowings, secured | 856,171 | 799,165 | 534,021 | 496,200 | 207,317 |
| Other borrowings, unsecured | 230,000 | 200,000 | – | – | – |
| Other borrowings, secured | – | 160,000 | – | – | – |
| **Subtotal** | **1,086,171** | **1,159,165** | **534,021** | **496,200** | **207,317** |
| **Borrowings included in current liabilities:** | | | | | |
| Bank borrowings, unsecured and unguaranteed | – | 55,000 | – | – | – |
| Bank borrowings, secured | – | 300,000 | – | – | – |
| Loans from related parties | – | 799,994 | – | – | – |
| Current portion of long-term borrowings | 204,875 | 76,007 | 338,406 | 274,544 | 829,387 |
| Interest payables | 2,755 | 11,908 | 1,760 | 1,108 | 2,508 |
| **Total borrowings** | **1,293,801** | **2,402,074** | **874,187** | **771,852** | **1,039,212** |

***Bank Borrowings, Secured (Non-Current)***

As of December 31, 2019, 2020, 2021 and March 31, 2022, we obtained the long-term bank borrowings of RMB1,061.0 million, RMB855.2 million, RMB872.4 million and RMB770.7 million, respectively. As of December 31, 2019 and 2020, the floating interest rates of the long-term bank borrowings ranged from 5.22% to 7.01% per annum and these borrowings were secured by the pledge of the shares of Dahua Technology held by the Mr. Fu and Mr. Zhu. As of December 31, 2019 and 2020, RMB597.3 million and RMB578.4 million of these borrowings respectively had also been pledged by our property, plant and equipment with carrying amount of approximately RMB467.2 million and RMB436.7 million, respectively.

In March 2021, we entered into a supplemental agreement with the banks that (i) the long-term bank time deposits of RMB300.0 million and restricted cash of RMB610.0 million were used to secure these borrowings; (ii) the floating interest rates decreased to a range from 4.65% to 4.85% per annum; and (iii) the pledge of secured shares of Dahua Technology held by Mr. Fu and Mr. Zhu and the Group's property, plant and equipment were released.

***Other Borrowings, Unsecured***

As of December 31, 2019 and 2020, we had a long-term borrowing from the Jinhua government of RMB230.0 million and RMB200.0 million, respectively, with the effective interest rate of 8.5% per annum. The borrowing was fully repaid prior to December 31, 2021.

***Other Borrowings, Secured***

As of December 31, 2020, we had a three-year borrowing with a total amount of RMB180.0 million. In December 2020, we borrowed from certain finance leasing companies, in a form of sales and leaseback arrangements. This borrowing was fully repaid prior to December 31, 2021.

***Bank Borrowings, Unsecured and Unguaranteed***

As of December 31, 2020, we obtained short-term unsecured and unguaranteed borrowing from a PRC bank with the amount of RMB55.0 million. The effective interest rates were 2.67% per annum. Such borrowings were secured by the pledge of the shares of Dahua Technology held by Mr. Fu and Mr. Zhu. In June 2021, the borrowings and the interest expenses were fully repaid and, accordingly, the pledge was released.

*Bank Borrowings, Secured (Current)*

As of December 31, 2020, we had two secured short-term borrowings from a PRC bank with an amount of RMB300.0 million with the effective interest of 2.64% per annum. These borrowings were secured by pledge of the shares of Dahua Technology held by Mr. Fu and Mr. Zhu.

As of July 31, 2022, being the latest practicable date for determining our indebtedness, the total amount of our short-term borrowings were RMB829.4 million, and the total amount of our long-term borrowings were RMB207.3 million. These borrowings were secured by pledge of long-term bank time deposits and restricted cash. As of July 31, 2022, we had unutilized and unrestricted bank loan facilities of RMB422.5 million.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable agreement we entered with our lenders. We are not subject to other material financial covenants under any agreements with respect to any bank loans or other borrowings. There was no delay or default in the repayment of borrowings during the Track Record Period. Taking our financial position into consideration, we are able to abide by these covenants amid current market conditions and that our capital raising abilities were not materially affected as of January 31, 2022.

*Loans from Related Parties*

In 2020, we obtained borrowings of RMB800.0 million from related parties with the interest rate of 5.5% per annum for the period from December 9, 2020 to December 9, 2021. Such related parties have rights to demand repayment with notice of 30 days in advance. The borrowings and interest expenses had been fully repaid before December 31, 2021.

**Lease Liabilities**

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the term of the lease. As of December 31, 2019, 2020 and 2021 and March 31, 2022, we recognized lease liabilities of RMB8.8 million, RMB27.2 million, RMB40.9 million and RMB253.8 million, respectively. The lease liabilities increased from RMB8.8 million as of December 31, 2019 to RMB27.2 million as of December 31, 2020, and further to RMB40.9 million as of December 31, 2021, primarily attributable to our lease of office premises and directly operated stores. The lease liabilities further increased significantly from RMB40.9 million as of December 31, 2021 to RMB253.8 million as of March 31, 2022, primarily due to the long-term lease of a building we signed in the first quarter of 2022 for warehousing and employee accommodation purposes. The overall increase in lease liabilities was to support our overall business growth.

**Financial Instruments with Preferred Rights at Amortized Cost**

We recognized financial instruments with preferred rights of RMB1,601.0 million, nil, nil and nil as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively, primarily because we have completed several rounds of financing by issuing shares with certain preferred rights upon capital contribution. Accordingly, we recognized the financial instruments with preferred rights as financial liabilities considering that all triggering events for the key redemption rights that could be exercised by the investors, are out of our control and these financial instruments do not meet the definition of equity for our Company. The financial liabilities are initially measured at present value and subsequently measured at amortized cost. The present value is the amount expected to be paid to the investors upon redemption which is assumed at the dates of issuance of the financial instruments. Interests from the financial instruments are charged to finance cost.

On December 31, 2020, we entered into a termination agreement to terminate these preferred rights with the investors. As a result, the financial instruments with preferred rights at amortized cost of approximately RMB1,723.4 million were derecognized accordingly. See Note 28 to the Accountant's Report in Appendix I to this document.

**Contingent Liabilities**

As of December 31, 2019, 2020, and 2021 and March 31, 2022, we did not have any contingent liabilities.

**Indebtedness Statement**

Except as disclosed above, as of March 31, 2022, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there had been no material change in our indebtedness since March 31, 2022 and up to the Latest Practicable Date.

## CAPITAL COMMITMENTS

Our capital commitments in 2019, 2020 and 2021 and the three months ended March 31, 2022 were mainly property, plant and equipment in nature. See Note 38 of the Appendix I to this document. The following table sets out our capital commitments for the periods indicated:

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *(RMB in thousands)* | | | |
| Property, plant and equipment | 439,241 | 668,382 | 1,063,609 | 1,913,709 |

## CAPITAL EXPENDITURES

Our capital expenditures were RMB600.9 million, RMB209.6 million, RMB595.8 million and RMB240.1 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. In these years, our capital expenditures were primarily used for the construction of the Jinhua Plant as well as the purchase of production machinery for new smart EV models. We expect to incur additional capital expenditures in 2022 primarily for purchase of plant and equipment for the Hangzhou Plant. See "Business — Our Strategies — Enhance vertical integration" for details of our expansion plan. We expect to finance such capital expenditures through existing cash on hand, bank loans and the net [**REDACTED**] from the [**REDACTED**]. We may adjust our capital expenditures for any given year according to our development plans or in light of market conditions and other factors we believe to be appropriate.

## FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including foreign exchange risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

### Foreign Exchange Risk

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of our Group. Our Company and our major subsidiaries were incorporated in Mainland China. We consider RMB as the functional currency.

Our Group is primarily exposed to changes in exchange rates between RMB and USD. As of December 31, 2019, 2020 and 2021 and March 31, 2022, if the USD strengthened or weakened by 10% against the RMB, with all other variables held constant, loss before income tax for the period then ended would have been approximately RMB88,000, RMB81,000, RMB326,000 and RMB315,000 lower/higher respectively as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalents.

**Credit Risk**

Credit risk arises from cash and cash equivalents, restricted cash, long-term bank time deposits, financial assets at FVPL as well as trade and notes receivables and other receivables. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, cash and cash equivalents, restricted cash, long-term bank time deposits and financial assets at FVPL are mainly placed with state-owned or reputable banks and financial institutions in Mainland China which are all high-credit-quality financial institutions.

To manage risk arising from trade and notes receivables, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and our management performs ongoing credit evaluations of the counterparties. Trade and notes receivables have been grouped based on shared credit risk characteristics and ageing to measure the expected credit losses. Trade and notes receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade and notes receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

For other financial assets carried at amortized cost (excluding input VAT to be deducted and prepayments), management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences.

Our trade receivables mainly consist of receivables for sales of automotive regulatory credits and government subsidies receivables for promotion of new energy vehicles which has insignificant credit risk.

See Note 3.1 to the Accountant's Report in Appendix I to this document.

**Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, our policy is to regularly monitor our liquidity risks and to maintain adequate cash and cash equivalents to meet our liquidity requirements.

See Note 3.1 to the Accountant's Report in Appendix I to this document for details of our financial liabilities based on the contractual maturities for all non-derivative financial liabilities.

### Interest Risk

Our interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose our Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose our Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 29 to the Accountant's Report in Appendix 1 to this document. We did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk for the Track Record Period.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, if our interest rates on borrowings obtained at variable rates had been higher/lower by 0.5%, loss before income tax for the period would have been approximately RMB3,966,000 higher/lower, RMB4,459,000 higher/lower, RMB4,379,000 higher/lower and RMB1,083,000 higher/lower respectively.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, substantially all of our balances with related parties were trade in nature, and the balances with related parties that were non-trade in nature had been settled in 2021. Related party transactions are set out in Note 39 to Accountant's Report in Appendix I to this document. Our Directors believe that these transactions were conducted in the ordinary and usual course of business, and did not distort our results of operations or make our historical results unreflective of our future performance.

## DIVIDEND POLICY

No dividend was paid or declared by our Company or other entities comprising our Group during the Track Record Period. Any declaration and payment, as well as the amount of dividends, will be subject to our Articles of Association and the relevant PRC laws. We currently do not have any fixed dividend pay-out ratio. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. As confirmed by our PRC Legal Advisor, according to relevant PRC laws, any future net profit that we make will have to be first applied to make up for our historically accumulated losses, after which we will be obliged to allocate 10% of our net profit to our statutory common reserve fund until such fund has reached more than 50% of our registered capital. We will, therefore, only be able to declare dividends after: (i) all our historically accumulated losses have been made up for; and (ii) we have allocated sufficient net profit to our statutory common reserve fund as described above.

## DISTRIBUTABLE RESERVES

As of March 31, 2022, we did not have any distributable reserves.

## WORKING CAPITAL SUFFICIENCY

Our Directors are of the view, and the Joint Sponsors concur, that we possess sufficient working capital, including sufficient cash and liquidity assets for the next 12 months from the date of the document, taking into account the cash and cash equivalent on hand, and the estimated net [**REDACTED**] received from the [**REDACTED**].

## UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

See Unaudited Pro Forma Financial Information in Appendix II to this document for details.

## [REDACTED] EXPENSES

[**REDACTED**] expenses represent professional fees, [**REDACTED**], and other fees incurred in connection with the [**REDACTED**]. We estimate that our [**REDACTED**] expenses will be approximately HK$[**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**] per Share (being the mid-point of the indicative [**REDACTED**] range) and no exercise of the [**REDACTED**] and the [**REDACTED**]), which accounts for approximately [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**]. We estimate the [**REDACTED**] expenses to consist of approximately of HK$[**REDACTED**] in [**REDACTED**] and HK$[**REDACTED**] in non-[**REDACTED**] fees (which consist of fees and expenses of legal advisors and our Reporting Accountant of approximately HK$[**REDACTED**] and other fees and expenses of approximately HK$[**REDACTED**]). Among the total [**REDACTED**] expenses, approximately HK$[**REDACTED**] will be directly attributable to the issue of our Shares, which will be deducted from equity upon the completion of the [**REDACTED**], and the remaining approximately HK$[**REDACTED**] will be expensed in our consolidated statements of comprehensive loss.

## NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work that our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since March 31, 2022, being the end date of the periods reported on in the Accountant's Report in Appendix I to this document, and there is no event since March 31, 2022 that would materially affect the information as set out in the Accountant's Report in Appendix I to this document.

## DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.