



理想汽車 LI AUTO INC.

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

Stock Code : 2015

GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Goldman Sachs 高盛

CICC 中金公司

Financial Advisor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager

UBS 瑞銀集團

Joint Bookrunners and Joint Lead Managers

CITIC SECURITIES

BOC INTERNATIONAL

CMBI 招銀國際

富途證券

IMPORTANT

Important: If you have doubt about any of the contents in this document, you should obtain independent professional advice.



Li Auto Inc.
理想汽車

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 100,000,000 Offer Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares : 10,000,000 Offer Shares (subject to adjustment)
Number of International Offer Shares : 90,000,000 Offer Shares (subject to adjustment and the Over-allotment Option)
Maximum Public Offer Price : HK\$150.00 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund)
Nominal value : US\$0.0001 per Offer Share
Stock code : 2015

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A copy of this document, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection—Documents Delivered to the Registrar of Companies" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any other document referred to above.

We expect to determine the pricing of the Offer Shares by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, August 6, 2021 and, in any event, not later than Tuesday, August 10, 2021. The Public Offer Price will be not more than HK\$150.00 unless otherwise announced. If, for any reason, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares, the Global Offering will not proceed and will lapse.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the Nasdaq on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in its best interest as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process. If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with the Company's consent, reduce the number of Offer Shares being offered under the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this document.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain events shall occur prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting" in this document.

The Company is controlled through weighted voting rights. Prospective investors should be aware of the potential risks of investing in a company with a WVR structure, in particular that the WVR Beneficiary, whose interests may not necessarily be aligned with those of our Shareholders as a whole, will be in a position to exert significant influence over the outcome of Shareholders' resolution. For further information about the risks associated with our WVR structure, please refer to the section headed "Risk Factors—Risks Relating to the Global Offering and the Dual Listing." Prospective investors should make the decision to invest in the Company only after due and careful consideration.

The ADSs of the Company, each of which represents two Class A Ordinary Shares, are listed for trading on the Nasdaq under the symbol "LI." The last reported sale price of the ADSs on the Nasdaq on July 30, 2021 (U.S. Eastern Time) was US\$33.39 per ADS. In connection with the Global Offering, we have filed a registration statement on Form F-3 and a preliminary prospectus supplement and plan to file a final prospectus supplement with the SEC to register the sale of Shares under the U.S. Securities Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering pursuant to Rule 12.11 of the Listing Rules. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk and our website at ir.lixiang.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

August 3, 2021

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences 9:00 a.m. on Tuesday,
August 3, 2021

Latest time for completing electronic applications
under the **White Form eIPO** service through the
designated website at www.eipo.com.hk⁽²⁾ 11:30 a.m. on Friday,
August 6, 2021

Application lists open⁽³⁾ 11:45 a.m. on Friday,
August 6, 2021

Latest time for (a) completing payment for **White Form eIPO**
applications by effecting internet banking transfer(s)
or PPS payment transfer(s) and (b) giving **electronic**
application instructions to HKSCC 12:00 noon on Friday,
August 6, 2021

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or
a CCASS Custodian Participant to give **electronic application instructions** via CCASS
terminals to apply for the Hong Kong Public Offer Shares on your behalf, you are advised to
contact your **broker** or **custodian** for the latest time for giving such instructions which may
be different from the latest time as stated above.

Application lists close⁽³⁾ 12:00 noon on Friday,
August 6, 2021

Expected Price Determination Date⁽⁴⁾ Friday, August 6, 2021

Announcement of the final Public Offer Price
and the International Offer Price on or around⁽⁴⁾ Friday, August 6, 2021

Announcement of the level of indications of interest in
the International Offering, the level of applications
in the Hong Kong Public Offering and the basis of
allocations of the Hong Kong Offer Shares to be published
on our website at ir.lixiang.com⁽⁵⁾ and the website of
the Hong Kong Stock Exchange at www.hkexnews.hk
on or before Wednesday, August 11, 2021

Results of allocations in the Hong Kong Public Offering
to be available at www.iporesults.com.hk
(alternatively: English <https://www.eipo.com.hk/en/Allotment>;
Chinese <https://www.eipo.com.hk/zh-hk/Allotment>)
with a “search by ID” function from 8:00 a.m. on Wednesday,
August 11, 2021
to 12:00 midnight on Tuesday,
August 17, 2021

EXPECTED TIMETABLE⁽¹⁾

Telephone enquiry for the results of allocations in the Hong Kong

Public Offering by calling +852 2862 8555

between 9:00 a.m. and 6:00 p.m. from Wednesday, August 11, 2021 to
Friday, August 13, 2021 and
Monday, August 16, 2021

Share certificates in respect of wholly or partially successful
applications to be dispatched/collected or deposited

into CCASS on or before⁽⁶⁾⁽⁸⁾ Wednesday, August 11, 2021

White Form e-Refund payment instructions/refund checks in respect of
wholly or partially successful applications (if applicable)
or wholly or partially unsuccessful applications

to be dispatched/collected on or before⁽⁷⁾⁽⁸⁾ Wednesday, August 11, 2021

Dealings in the Class A Ordinary Shares on the Stock Exchange

expected to commence at 9:00 a.m. on Thursday, August 12, 2021

Notes:

- (1) All dates and times refer to Hong Kong dates and times.
- (2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, August 6, 2021, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares—Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists.”
- (4) The Price Determination Date is expected to be on or around Friday, August 6, 2021 and, in any event, not later than Tuesday, August 10, 2021. If, for any reason, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Tuesday, August 10, 2021, the Global Offering will not proceed and will lapse. We expect to announce the pricing of the Offer Shares on or around the Price Determination Date.
- (5) None of the website or any of the information contained thereon forms part of this prospectus.
- (6) The Share certificates will only become valid at 8:00 a.m. on the Listing Date, which is expected to be Thursday, August 12, 2021, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.
- (7) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Public Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.

EXPECTED TIMETABLE⁽¹⁾

- (8) Applicants who have applied through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, August 11, 2021 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to the section headed "How to Apply for Hong Kong Offer Shares—Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks—Personal Collection—If you apply through **CCASS EIPO** service" for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares—Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares—Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks."

For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares", respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, the Company will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This document is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this document pursuant to the Hong Kong Public Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this document. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not contained nor made in this document and the Application Forms must not be relied on by you as having been authorized by the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are an NEV (new energy passenger vehicles) automaker in China. We design, develop, manufacture, and sell premium smart electric vehicles. Through our product and technology, we provide families with safe and convenient products and services. We are a pioneer in successfully commercializing EREVs (extended-range electric passenger vehicles) in China. Our first and currently the only commercialized model, Li ONE, is a six-seat, large premium electric SUV (sport utility vehicle) equipped with a range extension system and advanced smart vehicle solutions. We started volume production of Li ONE in November 2019 and released the 2021 Li ONE on May 25, 2021. As of July 31, 2021, we delivered over 72,000 Li ONEs. In 2020, Li ONE ranked as the best-selling new energy SUV model in China with a 9.7% market share and ranked in the top six in China’s NEV market in terms of sales volume with a 2.8% market share, and we ranked as the eleventh among all the NEV brands in China in terms of sales volume, according to the CIC Report. The market size of China’s passenger vehicle market and NEV market in 2020 was 20.8 million and 1.2 million, respectively, according to the CIC Report. In 2020, the NEV sales volume accounted for 5.8% of the total passenger vehicle sales volume in China, and EREVs accounted for 2.8% of China’s NEV market in terms of sales volume, according to the CIC Report.

The following diagram illustrates Li ONE’s certain features and specifications.



SUMMARY

| Model | Li ONE |
|---------------------------------------|---|
| Length*Width*Height (mm) | 5,030*1,960*1,760 |
| Wheelbase (mm) | 2,935 |
| NEDC range (km) | Total range: 1,080 Range powered by battery: 188 Range powered by extension system: 892 |
| Range extension system specifications | 1.2-liter turbo-charged engine/100-kW electric generator/55-liter fuel tank |
| Electric motor power (kW) | Rear-drive: 145/Front-drive: 100 |
| Battery capacity (kWh) | 40.5 |
| 0-100 km/h acceleration (s) | 6.5 |
| MSRP (RMB) | 338,000 |

We are dedicated to serving the mobility needs of families in China. To this end, we strategically focus on NEVs within a price range of RMB200,000 (approximately US\$31,000) to RMB500,000 (approximately US\$76,000). As one of the most competitive SUV models in China, Li ONE has been well positioned to capture the huge growth opportunity of the SUV segment. With growing purchasing power, families in China tend to choose SUVs for daily commutes and weekend family trips. We believe that Li ONE offers our users the performance, functionality, and cabin-space of a large premium smart SUV while priced close to a compact premium SUV.

We believe that automotive technologies will continue to evolve, and as new technologies enable us to create more compelling products for users to address their needs, we evolve our products as well.

- Our existing product, Li ONE, utilizes our proprietary EREV solution, which enables families to enjoy all the benefits of a premium SUV while free from range anxiety. We are developing our X platform, which succeeds the existing EREV platform for Li ONE and is equipped with our next-generation EREV powertrain system. We plan to launch the first product on our X platform, a full-size premium extended-range electric SUV, in 2022, and to launch two additional SUVs on our X platform in 2023.
- We are investing heavily in the HPC (High-power Charging) BEV technologies. We focus on developing our BEVs with ultra-fast charging capability, or HPC BEVs, which we believe will deliver superior charging experience. Charging under our planned HPC network will be faster, cheaper, and more accessible. We are developing two platforms, Whale and Shark, for our future HPC BEVs. Starting from 2023, we plan to launch at least two new HPC BEV models each year.

SUMMARY

- We believe that Level 4^{*} autonomous driving will be the primary operating model for all vehicles in the foreseeable future. We are investing significantly in our proprietary autonomous driving technologies. Starting from 2022, all our new vehicle models will be equipped with necessary hardware compatible with in-house developed, future Level 4 autonomous driving as a standard configuration, and we will continue to optimize our autonomous driving solutions leveraging our full-stack proprietary software development capabilities.

The following diagram illustrates the development roadmap with the expected time of delivery of our future electric vehicle models.



Since our inception, we have been leveraging technologies to create value for our users. We have invested in in-car technologies to provide joyful driving and riding experiences for families. We have developed our signature four-display interactive system, full-coverage in-car voice control system, and autonomous driving technologies. Furthermore, our utilization of FOTA (firmware over-the-air) upgrades, a technology that updates vehicle firmware and software remotely through cloud network, enables us to introduce additional functionality and improve vehicle performance continuously throughout the entire vehicle lifecycle.

Leveraging the know-how accumulated from our delivery and servicing of Li ONEs, we plan to equip our new vehicle models with optimized software (such as control algorithm) and hardware (new EREV and HPC BEV powertrain systems) as well as enhanced NVH performance. In addition, the planned adoption of high-voltage platform in our future HPC BEV models could further enhance their driving range by reducing energy consumption. Furthermore, our intelligent cockpit and autonomous driving technologies have been designed

* According to CIC, the Society of Automotive Engineers categorizes autonomous driving into six levels ranging from Level 0 to Level 5, which mainly refer to the different level of involvement of system regarding execution of steering and acceleration (or deceleration), monitoring of driving environment, and fallback performance of dynamic driving task. For Level 0 (no driving automation), there is no system involvement. For Level 1 (driver assistance), system involves in execution of steering and acceleration (or deceleration) only under certain conditions. For Level 2 (partial driving automation), system involves in execution of steering and acceleration (or deceleration) when required by human drivers. For Level 3 (conditional driving automation), system involves in execution of steering and acceleration (or deceleration) and monitoring of driving environment. For Level 4 (high driving automation), system involves in execution of steering and acceleration (or deceleration), monitoring of driving environment, and fallback performance of dynamic driving task under certain conditions. For Level 5 (full driving automation), there is no human involvement and the system takes full control. For different levels of autonomous driving, see "Industry Overview—The Future Trend: Smart Vehicles."

SUMMARY

with expandability and transferability across models, which allow us to smoothly migrate our design language, interaction experience, and integrated systems into our future models to further improve the intelligence level of all future models.

We have digitalized our user interactions and established our own direct sales and servicing network to continuously improve operating efficiency. With our integrated online and offline platform, we can achieve higher efficiency in sales and marketing than automakers that rely on third-party dealerships to reach customers. In particular, we have developed a data-driven, closed-loop digital platform to manage all user interactions from sales leads to test drives to purchases and even to user reviews, which enables us to significantly reduce user acquisition costs.

Quality is essential to our business. We manufacture in-house and collaborate with industry-leading suppliers to ensure the high quality of our vehicles. We have built our own manufacturing base in Changzhou, Jiangsu Province, China, which allows our engineering and manufacturing teams to seamlessly collaborate with each other and streamline the feedback loop for rapid product enhancements and quality improvements. We have also implemented strict quality control protocols and measurements for selecting and managing our suppliers. As of March 31, 2021, Li ONE was the only large SUV that has received top ratings under all of the China Insurance Automotive Safety Index (C-IASI), the China Automobile Health Index (C-AHI), and the China-New Car Assessment Program (C-NCAP), according to the CIC Report.

The Challenge Facing China's NEV Market

We believe that smart electric vehicles represent a trend of the automotive industry. China is both the largest passenger vehicle market and the largest NEV market in the world as measured by sales volume. China's NEV market is currently skewed towards BEVs, as 81.1% of the NEVs sold in China in 2020 were BEVs, according to the CIC Report. However, the development of NEVs in China is currently facing one fundamental challenge: the inconvenience of energy replenishment. The inconvenience of, and lengthy time needed for, BEVs' charging solutions cause range anxiety, which limits use cases and impedes the wider acceptance of BEVs in China. As a result, sales volume of BEVs represents only 4.7% of sales volume of total passenger vehicle in 2020, according to the CIC Report.

China faces a problem of inadequate private and public fast charging infrastructure. The development of private charging infrastructure is affected by factors such as limited residential parking space in cities with high population density, low percentages of residential parking space suitable for installing home charging stalls, and power grid capacity limits in aged residential areas. As of December 31, 2020, fewer than 25% of families in first-tier cities in China had parking space suitable for installing home charging stalls, compared with over 70% of families in the United States, according to the CIC Report. As a result, a substantial number of BEV owners in China have to rely on public charging infrastructure. As of December 31, 2020, the ratio of NEV parc to public fast charging stalls was 15.9 to 1, according to the CIC Report. This demonstrates the insufficient number of public fast charging stalls in China to support the growth of BEVs.

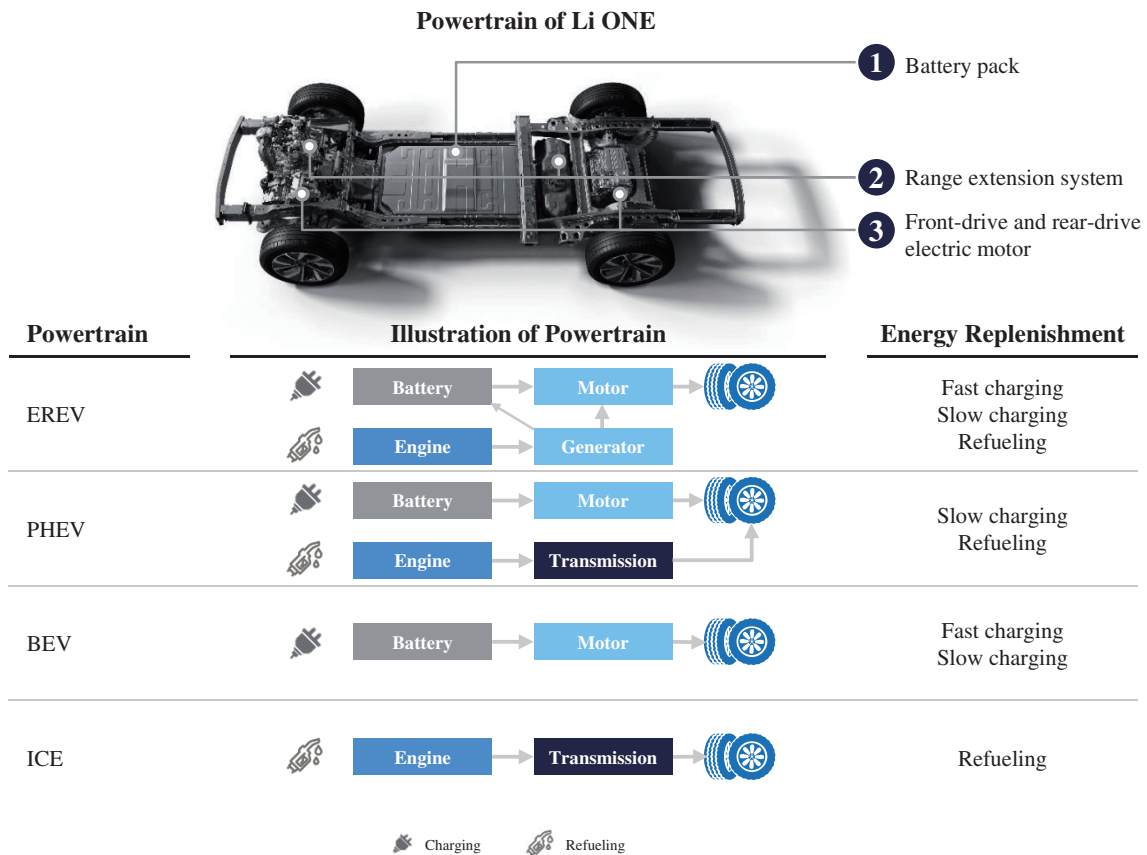
SUMMARY

In addition, existing charging solutions are time-consuming and have always troubled BEV owners as they usually take between 30 minutes and 60 minutes to charge a BEV. Considering the additional waiting time, the total time for waiting and charging is longer than consumers' expectation and thus causes inconvenience to consumers.

Our Solution

To address the challenge facing China's NEV market, any NEV energy replenishment solution must be at least as convenient and efficient as an ICE vehicle (a vehicle powered by internal combustion engine) energy replenishment solution and also must demonstrate commercial viability. We have developed an EREV solution and are also investing in the HPC BEV solution as both solutions could provide users with convenient energy replenishment experience that is comparable to ICE vehicles.

The following diagram illustrates our EREV powertrain and the difference between EREVs as compared to PHEVs, BEVs, and ICE vehicles.



SUMMARY

EREV Solution

We have developed our proprietary EREV technologies and applied them to our first model, Li ONE.

An EREV is purely electric-driven by its electric motor, but its energy source and power come from both its battery pack and range extension system. A range extension system generates electricity with a dedicated ICE designed with high fuel consumption efficiency, an electric generator, and a speed reducer to connect them. Our Li ONE electric propulsion system consists of a 145-kilowatt rear-drive electric motor, a 100-kilowatt front-drive electric motor, and a 40.5-kilowatt-hour battery pack, which supports an electrically powered NEDC range of 188 kilometers. Li ONE's range extension system consists of a 1.2-liter turbo-charged engine configured and fine-tuned for EREV purpose, a 100-kilowatt electric generator, and a 55-liter fuel tank. With its integrated powertrain system, Li ONE delivers a total NEDC range of 1,080 kilometers and energy efficiency of 6.05 liters per 100 kilometers or 17.7 kilowatt-hours per 100 kilometers, depending on its driving mode, according to the CIC Report.

Li ONE's energy can be replenished by slow charging, fast charging, and refueling. Li ONE can operate even when users have no access to charging infrastructure, thereby completely eliminating range anxiety. Benefiting from its all-electric-driven propulsion, Li ONE offers a similarly high-quality driving experience to that of BEVs, such as smooth acceleration (acceleration from zero to 100 kilometers-per-hour in 6.5 seconds) and superior NVH performance. The overall energy consumption level of Li ONE is much lower than that of ICE vehicles in a similar class, as a result of its high energy efficiency range extension system. In addition, in certain cities in China, our Li ONE users can also benefit from vehicle-related tax exemptions in China and local government policies in favor of NEVs, such as no quota limitations for vehicle license plate application and exemption from traffic restrictions, although Li ONEs sold in Beijing and Shanghai cannot enjoy the exemptions from the license plate restrictions. See "Risk Factors—Risks Relating to Our Business and Industry—Changes in PRC government policies that are favorable for NEVs or domestically manufactured vehicles could materially and adversely affect our business, financial condition, results of operations, and prospects."

Our next-generation EREV platform can support longer range, higher thermal efficiency, and better NVH performance. It further enhances integration of the range extension system and the electric motors to support higher electric power output and better acceleration performance. It leverages a world-class chassis to support a larger vehicle body and provide optimal driving experience and superior vehicle passing capability.

Despite the advancement of BEV technologies, potential development of charging infrastructure, and the uncertainty of changes in existing policies promulgated by local government on EREVs, the EREV market in the long run is still expected to grow significantly. Although both EREVs and BEVs with ultra-fast charging may eliminate range anxiety, the popularity of EREVs is still sustainable given that EREVs can provide longer travel distances per energy refuel and allow for more flexibility for refueling. Furthermore, the coverage of charging infrastructure of BEVs in rural areas or areas with lower population density may not

SUMMARY

be sufficient in the near future, which places EREVs in a more competitive position in these areas. Consequently, the sales volume of EREVs is expected to increase from 0.03 million in 2020 to 0.4 million in 2025, which is expected to account for 7.3% of the total NEV sales volume in 2025, according to the CIC report.

With the unique capabilities and features, we believe that our EREV technologies will help accelerate the adoption of electric vehicles in China and contribute to China's national initiatives to build a low-carbon-emission society.

HPC BEV Solution

As next-generation electric vehicle technologies continue to advance, we believe that it is the right time to introduce an HPC BEV platform and future HPC BEV models. A number of ultra-fast charging technologies such as high C-rate battery, high-voltage platform, and HPC network, have emerged. We have been investing in the technology advancement in these areas and plan to develop ultra-fast charging solutions, which aim to effectively address the inconvenience of energy replenishment for BEVs. We plan to develop a high C-rate battery to balance the cost, longevity, safety, and charging and discharging rate. We are also developing key parts of the high-voltage platform, such as a high-voltage air compressor. To facilitate commercialization of our HPC BEVs, we plan to deploy an HPC network that consists of ultra-fast charging stations. Starting from 2023, we plan to launch at least two new HPC BEV models each year. As a new entrant into the BEV market, we believe our proven product defining capability, as substantiated by the track record of developing and delivering Li ONE, deep understanding of the needs of families, and wide recognition of our brand and products provide a solid foundation for competing with peer BEV manufacturers. We also believe our HPC BEVs, which will be empowered by the next-generation electric vehicle technologies developed with our strong research and development capabilities, will also significantly improve charging efficiency and thereby effectively eliminate range anxiety, improve driving experience, and differentiate us from our competitors. Our existing research and development capabilities and accumulated know-how for EREVs, which we are leveraging in developing BEVs in areas such as autonomous driving, control algorithm, and electric-driven system, would also serve as our competitive advantage. We strategically plan to expand our product line to launch both EREV and BEV models within our target price range so as to build a solid brand trusted by families.

Competitive Landscape

The China automotive market is highly competitive. In 2020, there were 131 automobile brands with passenger vehicles delivered in China. China has also become the world's largest market for NEVs, which are categorized by the PRC government into BEVs, PHEVs (including EREVs), and FCEVs. In 2020, the NEV sales volume only accounted for 5.8% of the total passenger vehicle sales volume, indicating massive future growth potential. Li ONE is the first successfully commercialized EREV in China and defines a new market segment in China with huge growth potential. In 2020, Li ONE was the best-selling new energy SUV, which is the only EREV among the top 10 best-selling new energy SUVs, and was the sixth best-selling NEV.

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We strategically focus on NEVs within a price range of RMB200,000 (approximately US\$31,000) to RMB500,000 (approximately US\$76,000), and we compete with both ICE vehicles and all kinds of NEVs (including BEVs, PHEVs, FCEVs) in the same price range. We believe that our vehicles compete with premium vehicles regardless of powertrain technologies. We believe that the primary competitive factors in our markets are: technological innovation, product quality and safety, product pricing, sales efficiency, manufacturing efficiency, branding, and design and styling. We believe that positive factors pertaining to our competitive position include precise consumer targeting and product defining capabilities, innovative designs and technologies, manufacturing cost management, distribution cost management, and general management efficiency as a company. In 2020, the first full year after Li ONE's mass production in November 2019, Li ONE ranked as the best-selling new energy SUV model in China with a 9.7% market share and ranked in the top six in China's NEV market in terms of sales volume with a 2.8% market share, and we ranked as the eleventh among all the NEV brands in China in terms of sales volume, according to the CIC Report. Our extraordinary product defining capability enables us to design Li ONE in anticipation of the Chinese families' demand for SUVs while balancing performance, configurations, costs, and technologies. We also believe that the current technology advancement towards the next-generation electric vehicles provides us with a unique opportunity to compete with existing BEV players because such technology advancement is tantamount to a fresh development of a brand new technology. The current mainstream BEV charging infrastructure operates on a 400-voltage platform and usually takes between 30 and 60 minutes to fully charge a BEV. The next-generation charging infrastructure is expected to operate on an 800-voltage platform and still requires significant commitment in research and development and investments in brand-new charging stations compared to the current charging infrastructure. We have been investing in next-generation electric vehicle technologies including high C-rate battery pack, high-voltage platform, and HPC network. We believe that our investment and progress in the research and development of the next-generation electric vehicle technologies is in line with major existing BEV players. We expect our HPC BEVs to be equipped with the next-generation electric vehicle technologies developed with our strong research and development capabilities, with significantly improved charging efficiency reducing the charging time to between 10 and 15 minutes after 2023, and thereby effectively eliminate range anxiety, improve driving experience, and differentiate us from our competitors.

See "Risk Factors—Risks Relating to Our Business and Industry—We may not be successful in the highly competitive China automotive market." for risks related to competition in our industry.

OUR MARKET OPPORTUNITIES

China has become the world's largest NEV market. In recent years, the PRC government has provided great support and implemented various favorable policies to drive the development of the NEV market. In addition, with the rapid advancement of NEV technology, growing environmental awareness of consumers, and increasing acceptance of NEVs, the growth of NEV sales volume has surpassed that of the ICE vehicles in China. According to the CIC Report, the NEV sales volume increased from 0.6 million in 2017 to 1.2 million in 2020,

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representing 5.8% of the total passenger vehicle sales volume in 2020, indicating massive future growth potential. The NEV market size is expected to grow from 2020 to 2025 at a CAGR of 35.8%, compared to a CAGR of 4.0% during the same period for passenger vehicle market size. The New Energy Vehicle Industry Development Plan (2021-2035) issued by the MIIT in October 2020 has set China's target NEV sales volume to be around 20% of total vehicle sales volume by 2025. In 2020, Li ONE ranked the sixth in China's NEV market in terms of sales volume with a 2.8% market share, according to the CIC Report. We ranked the third among the automakers that solely manufacture NEVs in terms of sales volume in 2020, according to the CIC Report.

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

- ***Extraordinary and trend-setting product defining capability***

We started the volume production of Li ONE in November 2019 and delivered over 72,000 Li ONEs as of July 31, 2021. In 2020, Li ONE ranked as the best-selling new energy SUV model in China, according to the CIC Report. The success of Li ONE demonstrates our insight into user demand and our extraordinary product defining capabilities, which lay a solid foundation for the development of future models, including both EREV and BEV models.

- ***Proprietary EREV and BEV technologies***

Our proprietary range extension system enables users to enjoy all the benefits of an electric vehicle while freeing them from the range anxiety typically associated with BEVs. The solid delivery record of Li ONE demonstrates our capability to successfully leverage EREV technologies to deliver the superior performance and functionalities in our product designing. The technologies and experience we accumulated will accelerate the development of our X, Whale, and Shark platforms and empower the development of our future platforms.

- ***Smart vehicle solutions delivering superior user experience***

Capitalizing on advanced technologies in the industry, we have developed proprietary smart vehicle solutions to significantly enhance our user experience. Our high-performance Qualcomm 820A platform, Android-Linux dual system for in-car interactive controls, signature four-display interactive system, full-coverage in-car voice control system, FOTA upgrades, and cloud capability all deliver superior user experience, and the 2021 Li ONEs are equipped with NOA as a standard configuration.

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- ***High efficiency in sales and marketing***

We have developed our own integrated online and offline platform to interact directly with users. With fully digitalized processes and continuous data-drive optimization, we have achieved much high efficiency in sales and marketing than automakers that rely on third-party dealerships to reach customers. We have established our own direct sales and servicing network, and our high sales and marketing efficiency allowed us to achieve profitability at a relatively early stage.

- ***Effective quality control capabilities***

Quality is essential to our business. We have built our own Changzhou manufacturing base, which allows us to implement strict quality control protocols and measurements throughout the manufacturing process. We apply rigorous standards in the vehicle development and validation process and work with world-class suppliers with high quality standards.

- ***Combination of expertise from automotive, smart device, and internet industries***

Our team has tremendous experience in their areas of expertise. The senior members of our teams come from traditional and smart automotive, smart device, and internet industries. They collaborate closely and complement each other to drive innovations within our company.

For a detailed discussion of these strengths, see “Business—Our Strengths.”

OUR STRATEGIES

We aim to become a leading player in China’s NEV market. We provide families with safe, convenient, and refined products and services. We aspire to create a sustainable path for everyone to embrace vehicle electrification. We intend to pursue the following strategies to achieve our mission:

- ***Continue to innovate in electrification and successfully launch future EREV and BEV models***

We will continue to develop new NEV models with best-in-class performance. We plan to introduce a next-generation EREV platform in our three new vehicles planned for 2022 and 2023. We are investing in the research and development of next-generation electric vehicle technologies including high C-rate battery, high-voltage platform, and ultra-fast charging technologies. Leveraging these technologies, we are developing two platforms, Whale and Shark, for our future HPC BEVs. Starting from 2023, we plan to launch at least two new HPC BEV models each year.

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- ***Continue to innovate in vehicle intelligence and autonomous driving***

We are dedicated to continuously improving the driving experience of our users and delivering superior Level 4 autonomous driving to users. We intend to continue to enhance our smart-vehicle solutions, and invest in progressive technologies and proprietary smart vehicle solutions. We plan to further enhance our Level 2 autonomous driving currently equipped on our vehicles and equip our future models with necessary hardware compatible with in-house developed, future Level 4 autonomous driving as a standard configuration.

- ***Further expand sales network and optimize efficiency***

We plan to expand to broader regions across China to reach new prospective users. We also plan to optimize our sales and marketing efficiency by leveraging our integrated online and offline platforms. In addition, we will continue to strengthen our digitalized system to integrate and connect all stages of the vehicle sales and servicing process to achieve higher efficiency in sales and marketing.

- ***Continue to pursue operational excellence and cost improvement***

We believe that ensuring the quality of the software in vehicles is of increased importance. We intend to allocate a larger proportion of our development efforts to improving software quality while continuing to incrementally improve our vehicle hardware. Meanwhile, we will continue to optimize our costs of operation by following a design-for-cost philosophy and minimizing personalized configuration options to achieve the highest possible economies of scale.

For a detailed discussion of these strategies, see “Business—Our Strategies.”

OUR SALES AND DISTRIBUTION INFRASTRUCTURE

We build and operate our own sales and distribution infrastructure and sell our vehicles directly to our users. As of July 31, 2021, we had 109 retail stores across major cities in China. We locate our retail stores in selected shopping malls where our targeted users are likely to patronize, instead of central business districts or landmark buildings. As of July 31, 2021, we had 42 delivery centers and 29 servicing centers across major cities in China. Delivery and servicing centers perform in-person delivery and maintenance and repairs, and are generally located in the suburbs with convenient transportation. We believe that our direct sales model not only improves economic and operational efficiency significantly, but also provides our users with superior purchasing experiences consistent with our values and brand image. We have an efficient sales and servicing network and achieved an average of over 100 vehicles delivered per store in December 2020, compared with an average of approximately 50 of our peers in China, according to the CIC Report.

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OUR SUPPLY CHAIN

We collaborate with over 190 suppliers for over 1,900 sourced parts to build our Li ONE. We expect to benefit from economies of scale with our production volume ramp-up. We have developed close partnership with suppliers for key parts, such as CATL for battery packs, Inovance for electric motor controllers, Saint-Gobain for windshields, and SDS for multi-mode hybrid transmissions. We own the IP rights for the co-developed components with the suppliers pursuant to our agreements with them. We make sourcing decisions taking into account quality, cost, and lead-time. Our supply management team works closely with suppliers to ensure the availability of required supply, and our supplier quality engineers are responsible for managing the production processes of suppliers to ensure that our quality standards are met.

OUR RESEARCH AND DEVELOPMENT

As an emerging automaker, we heavily rely on research and development to establish and strengthen our market position. We conduct our research and development activities relating to intelligent vehicle technologies primarily in our headquarters in Beijing, China. On May 1, 2021, our new research and development center in Shanghai, China started its operation. Our Beijing and Shanghai teams are developing electric vehicle technologies, such as next-generation powertrain system, high C-rate battery, high-voltage platform, ultra-fast charging technologies, autonomous driving technologies, next-generation intelligent cockpit, operating systems, and computing platforms. We also maintain a production engineering and technology center in Changzhou, Jiangsu Province, China. As of March 31, 2021, we had 1,633 employees engaging in research and development, including automotive design and engineering, intelligent systems, and autonomous driving departments.

WEIGHTED VOTING RIGHTS STRUCTURE AND OUR CONTROLLING SHAREHOLDERS

The Company has a weighted voting rights structure. Under this structure, the Company's share capital comprises Class A Ordinary Shares and Class B Ordinary Shares. Each Class A Ordinary Share entitles the holder thereof to exercise one vote, and each Class B Ordinary Share entitles the holder thereof to exercise ten votes, on any resolution tabled at the Company's general meetings, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote.

Immediately upon the completion of the Global Offering, the WVR Beneficiary, being the holder of the Class B Ordinary Shares, will be Mr. Li. Assuming (i) the Over-allotment Option is not exercised, (ii) none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares, (iii) no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, and (iv) without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans, Mr. Li will beneficially own and will control, through his intermediaries, an aggregate of 355,812,080 Class B Ordinary Shares and 108,557,400 CEO Award Shares (which are Class A Ordinary Shares with one vote per share), representing (a) approximately 22.63% of our issued Shares; (b) approximately 69.59% of the voting rights in our Company with respect to

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shareholder resolutions relating to matters other than the Reserved Matters and (c) approximately 18.23% with respect to shareholder resolutions relating to Reserved Matters. For further details, please see the section headed “Share Capital—Weighted Voting Rights Structure” in this document.

Mr. Li holds his interests in our Company through Amp Lee Ltd., which is wholly owned by Cyric Point Enterprises Limited, the entire interest of which is in turn held by a trust that was established by Mr. Li (as the settlor) for the benefit of himself and his family. Therefore Mr. Li will be a Controlling Shareholder of our Company after the Listing. Our Controlling Shareholders confirmed that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Listing Rules. Our Directors believe that we are capable of carrying out our business independently of our Controlling Shareholders and their close associates. For further details about our Controlling Shareholders, please refer to the section headed “Relationship with the Controlling Shareholders.”

The Company’s WVR Structure enables the WVR Beneficiary to exercise voting control over the Company notwithstanding the WVR Beneficiary does not hold a majority economic interest in the share capital of the Company. This allows the Company to benefit from the continuing vision and leadership of the WVR Beneficiary who controls the Company with a view to its long-term prospects and strategy.

Mr. Li is the Founder of our Company. Since the inception of our business, Mr. Li has been pivotal to our success and has been materially responsible for the long-term strategies and continued growth of our business. Mr. Li is one of the few rare successful serial entrepreneurs in China. The establishment of Li Auto Inc. is the third time for Mr. Li to start a new business. Mr. Li has the capabilities to start a business from the scratch and develop it into prosperity and success. Mr. Li’s successful founding and operating of Autohome Inc. (NYSE: ATHM), the world’s largest automobile portal, demonstrates his insight, vision, experience, and capabilities as one of the best internet product managers in China. Leveraging this rich entrepreneurship experience, Mr. Li believes that user demand is a critical factor affecting vehicle purchase decision-making and one of the bottlenecks for massive vehicle electrification was the charging infrastructure in light of the booming needs for energy replenishment of NEV users. Under his leadership as the founder and chief executive officer, our Company successfully introduced its first EREV model, Li ONE during the transitional window from ICE vehicles to BEVs. The growth of Li ONE sales since its debut in December 2019 proves the visionary strategy of Mr. Li, who envisioned, and was instrumental for designing the fundamental features of Li ONE, including the iconic EREV powertrain and the cabin interactive system. Our Company’s proprietary range extension system enables users to enjoy all the benefits of an electric vehicle while freeing them from the range anxiety typically associated with BEVs. In addition, the four-display cabin interactive system evolves from Mr. Li’s deep thinking of the interplay of intelligent devices and intelligent vehicles. While not directly responsible for engineering, Mr. Li was the mastermind behind these defining features of Li ONE. In the meantime, Mr. Li also has in-depth insight into the advance development of future technologies, such as ultra-fast charging technologies, autonomous driving and intelligent cabin and leads our Company to develop new BEV models. Mr. Li’s contribution to the Company is further exemplified by the successful business model of the Company, particularly the direct

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sales and servicing network. Mr. Li's earliest innovation in automobile sales could be dated back to the operation of Autohome Inc., where he had accumulated experience in online and direct vehicle sales. This experience enabled Mr. Li to understand the limits of traditional dealership-based automobile sales system, including lack of data-driven insights to streamline sales and improve user experience, and Mr. Li set Autohome Inc. to address these issues. Leveraging the Autohome Inc. experience, Mr. Li was able to further realize his idea of efficient direct sales and servicing network, significantly reducing the cost of channels to benefit users. Mr. Li has outstanding management abilities in navigating the direction of our Company. As a successful entrepreneur, Mr. Li has created a diligent and efficient corporate culture. Through his insight and vision, Mr. Li has the personality to attract talents in the fields of automotive engineering and manufacturing, vehicle intelligence, autonomous driving, and AI algorithms.

Prospective investors are advised to be aware of the potential risks of investing in companies with a WVR Structure, in particular that the interests of the WVR Beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders' resolutions. Prospective investors should make the decision to invest in our Company only after due and careful consideration. For further information about the risks associated with the WVR Structure adopted by our Company, please refer to the sections headed "Risk Factors—Risks Relating to the Global Offering and the Dual Listing—Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares or ADSs may view as beneficial" and "Risk Factors—Risks Relating to the Global Offering and the Dual Listing—Certain principal shareholders have substantial influence over our key corporate matters and will continue to have such influence following the Global Offering."

As we are seeking a dual primary listing as an issuer with a WVR structure, we are subject to: (a) certain shareholder protection measures and governance safeguards under Chapter 8A of the Hong Kong Listing Rules, including Rule 8A.44 of the Hong Kong Listing Rules, which requires our WVR Structure to give force to the requirements of certain rules under Chapter 8A of the Hong Kong Listing Rules by incorporating them into our Articles; and (b) the articles requirements set out in Appendix 3 and Appendix 13 to the Hong Kong Listing (the "**Listing Rules Articles Requirements**"). Our Articles do not currently comply with some of the Listing Rules Articles Requirements, and we undertake to put forth resolutions to amend our Articles to comply with these requirements at an extraordinary general meeting to be convened in or before January 2022.

Furthermore, we undertake to, at the same extraordinary general meeting, seek shareholders' approval to amend our Articles to incorporate the Termination of Founder Entity's Special Rights, the Quorum Requirement, the GM Postponement Requirement, the Amendment of Directors' Class Right Related Powers, the Amendment of Auditor Appointment Powers and the Forum Selection Clarification into the Articles. Details of these proposed amendments are set out in the section headed "Waivers and Exemptions—Requirements relating to the Articles of Association of the Company" of this document.

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In addition, save for certain specified exceptions, we undertake to fully comply with the Unmet Listing Rules Articles Requirements, the Termination of Founder Entity's Special Rights, the GM Postponement Requirement, the Amendment of Directors' Class Right Related Powers, the Amendment of Auditor Appointment Powers and the Forum Selection Clarification before our Articles are formally amended such that immediately upon the Listing, we will be subject to, and will fully comply with, such requirements as if they have already been incorporated into our existing Articles upon the Listing. For further details, please see "Waivers and Exemptions—Requirements Relating to the Articles of Association of the Company" and "Share Capital—Weighted Voting Rights Structure".

RISK FACTORS

Our operations and the Global Offering involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us and/or the value of your investment. See the section headed "Risk Factors" for details of our risk factors, which we strongly urge you to read in full before making an investment in our Shares. Some of the major risks we face include:

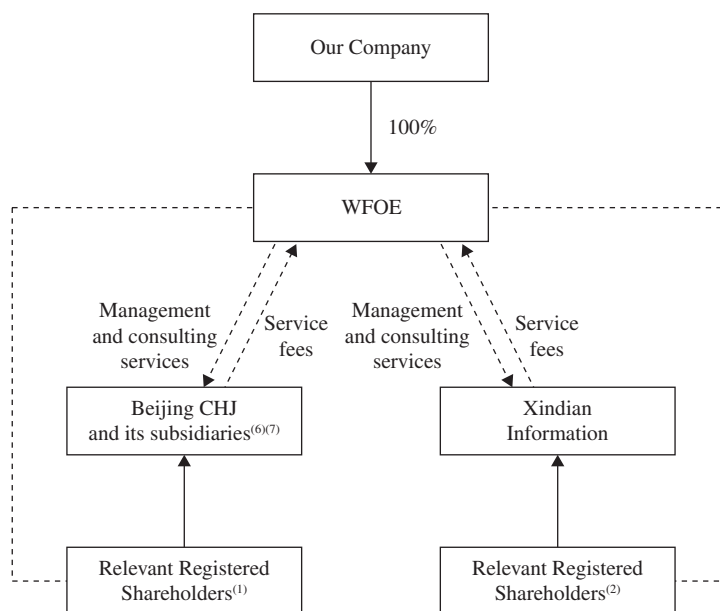
- we have a limited operating history and face significant challenges as a new entrant into our industry;
- our ability to develop, manufacture, and deliver automobiles of high quality and appeal to users, on schedule, and on a large scale is unproven and still evolving;
- we currently depend on revenues generated from a single model of vehicles and in the foreseeable future from a limited number of models;
- we are subject to risks associated with EREVs;
- we recorded net losses and had negative net cash flows from operations in the past, and we have not been profitable, which may continue in the future;
- our vehicles may not perform in line with user expectations and may contain defects;
- we may not be successful in the highly competitive China automotive market;
- our research and development efforts may not yield the results as expected;
- we could experience disruptions in supply of raw materials or components used in our vehicles from our suppliers, some of which are our single-source suppliers for the components they supply;
- If the PRC government deems that our contractual arrangements with our VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations;
- Changes in China's economic, political or social conditions or government policies could have a material and adverse effect on our business and results of operations; and
- our ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections.

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CONTRACTUAL ARRANGEMENTS

Our Company operates or may operate in certain industries that are subject to restrictions under current PRC laws and regulations. In order to comply with such laws, while availing ourselves of international capital markets and maintaining effective control over all of our operations, we control our Consolidated Affiliated Entities through the Contractual Arrangements entered into on April 21, 2021. Hence, we do not directly own any equity interest in our Consolidated Affiliated Entities. Pursuant to the Contractual Arrangements, we have effective control over the financial and operational policies of our Consolidated Affiliated Entities and are entitled to all the economic benefits derived from the Consolidated Affiliated Entities' operations. For further details, please see the section headed "Contractual Arrangements" in this document.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Company stipulated under the Contractual Arrangements:



Notes:

- (1) Beijing CHJ is owned by Mr. Li Xiang as to 90.27%, Mr. Shen Yanan as to 5.08% and Mr. Li Tie as to 4.65%.
- (2) Xindian Information is owned by Mr. Li Xiang as to 74%, Mr. Fan Zheng as to 12.92%, Mr. Shen Yanan as to 3.78%, Mr. Li Tie as to 3.46%, Mr. Qin Zhi as to 1.89%, Mr. Liu Qinghua as to 1.09%, Mr. Wei Wei as to 0.46%, Mr. Song Gang as to 0.43%, Mr. Ye Qian as to 0.02% and Mr. Xu Bo as to 1.95%.
- (3) "—>" denotes direct legal and beneficial ownership in the equity interest.
- (4) "---->" denotes contractual relationship.
- (5) "-----" denotes the control by WFOE over the Registered Shareholders and our VIEs through (i) powers of attorney to exercise all shareholders' rights in our VIEs; (ii) exclusive call options to acquire all or part of the equity interests in our VIEs; and (iii) equity pledges over the equity interests in our VIEs.
- (6) These include certain companies which do not currently carry out any business operations but intend to carry out businesses which are subject to foreign investment restrictions in accordance with the 2020 Negative List. For details of the subsidiaries of our VIEs, see "History, Reorganization and Corporate Structure."
- (7) 50% of the equity interest in Chongqing Lixiang is held by Beijing CHJ and the remaining 50% is indirectly held by our Company. For details of the subsidiaries of our VIEs, see "History, Reorganization and Corporate Structure."

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Please refer to the sections headed “Risk Factors—Risks Relating to Our Corporate Structure” and “Contractual Arrangements—Development in PRC Legislation on Foreign Investment” for further details.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountant’s Report set out in Appendix I to this document. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes, as well as the section headed “Financial Information.” Our consolidated financial information was prepared in accordance with U.S. GAAP.

Summary Consolidated Statements of Comprehensive Loss

| | For the Year Ended December 31, | | | | For the Three Months Ended March 31, | | |
|--------------------------------------|---------------------------------|--------------------|--------------------|--------------------|---|--------------------|------------------|
| | 2018 | 2019 | 2020 | | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | |
| Revenues: | | | | | | | |
| —Vehicle sales | — | 280,967 | 9,282,703 | 1,416,817 | 841,058 | 3,463,673 | 528,660 |
| —Other sales and services | — | 3,400 | 173,906 | 26,543 | 10,617 | 111,528 | 17,022 |
| Total revenues | — | 284,367 | 9,456,609 | 1,443,360 | 851,675 | 3,575,201 | 545,682 |
| Cost of sales: | | | | | | | |
| —Vehicle sales | — | (279,555) | (7,763,628) | (1,184,961) | (769,996) | (2,878,994) | (439,420) |
| —Other sales and services | — | (4,907) | (143,642) | (21,924) | (13,391) | (79,474) | (12,130) |
| Total cost of sales | — | (284,462) | (7,907,270) | (1,206,885) | (783,387) | (2,958,468) | (451,550) |
| Gross (loss)/profit | — | (95) | 1,549,339 | 236,475 | 68,288 | 616,733 | 94,132 |
| Operating expenses: | | | | | | | |
| —Research and development | (793,717) | (1,169,140) | (1,099,857) | (167,871) | (189,690) | (514,500) | (78,528) |
| —Selling, general and administrative | (337,200) | (689,379) | (1,118,819) | (170,765) | (112,761) | (509,924) | (77,830) |
| Total operating expenses | (1,130,917) | (1,858,519) | (2,218,676) | (338,636) | (302,451) | (1,024,424) | (156,358) |

SUMMARY

| | For the Year Ended December 31, | | | | For the Three Months Ended March 31, | | |
|---|---------------------------------|--------------------|--------------------|------------------|---|------------------|-----------------|
| | 2018 | 2019 | 2020 | | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | |
| Loss from operations | (1,130,917) | (1,858,614) | (669,337) | (102,161) | (234,163) | (407,691) | (62,226) |
| Other (expense)/income | | | | | | | |
| Interest expense | (63,467) | (83,667) | (66,916) | (10,213) | (19,635) | (14,582) | (2,226) |
| Interest income | 3,582 | 30,256 | 41,316 | 6,306 | 7,595 | 29,694 | 4,532 |
| Investment income/(loss), net | 68,135 | 49,375 | 213,600 | 32,602 | (23,770) | 148,778 | 22,708 |
| Share of loss of equity method investees | (35,826) | (162,725) | (2,520) | (385) | (420) | (322) | (49) |
| Foreign exchange (loss)/gain, net | (3,726) | 31,977 | (6,719) | (1,026) | 1,970 | (93,494) | (14,270) |
| Changes in fair value of warrants and derivative liabilities | — | (426,425) | 272,327 | 41,565 | 176,283 | — | — |
| Others, net | (3,077) | 1,949 | 29,372 | 4,483 | 654 | 3,605 | 550 |
| Loss before income tax expense | (1,165,296) | (2,417,874) | (188,877) | (28,829) | (91,486) | (334,012) | (50,981) |
| Net loss | (1,532,318) | (2,438,536) | (151,657) | (23,148) | (77,113) | (359,967) | (54,943) |
| Net loss attributable to ordinary shareholders of Li Auto Inc. | (1,849,638) | (3,281,607) | (791,985) | (120,881) | (233,732) | (359,967) | (54,943) |
| Total other comprehensive income/(loss), net of tax | 12,954 | 2,851 | (1,020,728) | (155,794) | (5,088) | 107,644 | 16,430 |
| Total comprehensive loss, net of tax | (1,519,364) | (2,435,685) | (1,172,385) | (178,942) | (82,201) | (252,323) | (38,513) |
| Comprehensive loss attributable to ordinary shareholders of Li Auto Inc. | (1,836,684) | (3,278,756) | (1,812,713) | (276,675) | (238,820) | (252,323) | (38,513) |

SUMMARY

We started volume production of Li ONE in November 2019 and began making deliveries of Li ONEs in December 2019, making 2020 our first full year after commencing vehicle deliveries. Our total revenues increased from RMB284.4 million in 2019 to RMB9.5 billion (US\$1.4 billion) in 2020, and increased from RMB851.7 million for the three months ended March 31, 2020 to RMB3.6 billion (US\$545.7 million) for the three months ended March 31, 2021, primarily due to the increase in vehicle deliveries with the continuing expansion of our sales and servicing network. Our cost of revenues increased from RMB284.5 million in 2019 to RMB7.9 billion (US\$1.2 billion) in 2020, and increased from RMB783.4 million for the three months ended March 31, 2020 to RMB3.0 billion (US\$451.6 million) for the three months ended March 31, 2021, primarily due to the increase of direct production and material costs, labor costs, manufacturing overhead, shipping and logistic costs, and reserves for estimated warranty costs. The increase of the cost of sales was the result of the increase in sales volume of vehicles. We had not recognized any share-based compensation expenses for option granted in 2018 and 2019, because we consider that it is not probable that the performance conditions related to our initial public offering will be satisfied until the event occurs. Our share-based compensation expenses allocated to research and development expenses were RMB60.8 million (US\$9.3 million) in 2020, including cumulative share-based compensation expenses recognized upon the completion of our initial public offering in the United States, and increased from nil for the three months ended March 31, 2020 to RMB116.6 million (US\$17.8 million) for the three months ended March 31, 2021, primarily due to incremental share options granted with higher fair value in January 2021 while no share-based compensation expenses were recognized for stock options with service conditions and a performance condition related to our initial public offering in the first quarter of 2020. Excluding the share-based compensation expenses, our research and development expenses decreased from RMB1.2 billion in 2019 to RMB1.0 billion (US\$158.6 million) in 2020, primarily attributable to a decrease in design and development expenses due to higher validation and testing fees that we incurred in 2019 to prepare for the production of Li ONE, and increased from RMB189.7 million in the three months ended March 31, 2020 to RMB397.9 million (US\$60.7 million) in the three months ended March 31, 2021, primarily attributable to increased research and development activities for our future vehicle models and increased headcount. See “Financial Information—Period-to-Period Comparison of Results of Operations.”

We were loss-making during the Track Record Period. In 2018, 2019, and 2020 and for the three months ended March 31, 2021, we incurred net loss of RMB1.5 billion, RMB2.4 billion, RMB151.7 million (US\$23.1 million), and RMB360.0 million (US\$54.9 million), respectively. The net losses incurred in 2018 and 2019 were primarily due to the fact that we began making vehicle deliveries and generating revenues in December 2019 while incurring expenses for the entire period in order to launch our first model. The net losses incurred in 2020 and the first quarter of 2021 were primarily due to (i) the substantial amount of research and development expenses incurred to develop future vehicles and autonomous driving technologies and (ii) the substantial amount of selling, general, and administrative expenses incurred to expand our sales and servicing network and increase our brand awareness. For risks relating to our continuing loss-making in the future, including expected widening loss-making in 2021, see “Risk Factors—We recorded net losses and had negative net cash flows from operations in the past, and we have not been profitable, which may continue in the future.”

SUMMARY

Summary Consolidated Balance Sheets

| | As of December 31, | | | | As of March 31, | |
|---|-----------------------|------------------|-------------------|------------------|-------------------|------------------|
| | 2018 | 2019 | 2020 | | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | US\$ |
| | <i>(in thousands)</i> | | | | | |
| Cash and cash equivalents | 70,192 | 1,296,215 | 8,938,341 | 1,364,258 | 6,070,720 | 926,573 |
| Restricted cash | 25,000 | 140,027 | 1,234,178 | 188,372 | 2,111,642 | 322,300 |
| Time deposits and short-term investments | 859,913 | 2,272,653 | 19,701,382 | 3,007,017 | 22,175,797 | 3,384,688 |
| Total current assets | 2,294,340 | 5,065,839 | 31,391,109 | 4,791,218 | 32,334,910 | 4,935,272 |
| Total non-current assets | 3,486,600 | 4,447,583 | 4,982,167 | 760,426 | 5,409,231 | 825,610 |
| Total assets | 5,780,940 | 9,513,422 | 36,373,276 | 5,551,644 | 37,744,141 | 5,760,882 |
| Trade and notes payable | 337,107 | 624,666 | 3,160,515 | 482,389 | 4,311,223 | 658,021 |
| Accruals and other current liabilities | 1,272,126 | 867,259 | 647,459 | 98,821 | 742,154 | 113,275 |
| Total current liabilities | 1,749,373 | 4,679,720 | 4,309,221 | 657,715 | 5,549,605 | 847,036 |
| Total non-current liabilities | 1,228,303 | 252,571 | 2,260,458 | 345,012 | 2,461,876 | 375,755 |
| Total liabilities | 2,977,676 | 4,932,291 | 6,569,679 | 1,002,727 | 8,011,481 | 1,222,791 |
| Net current assets | 544,967 | 386,119 | 27,081,888 | 4,133,503 | 26,785,305 | 4,088,236 |
| Net assets | 2,803,264 | 4,581,131 | 29,803,597 | 4,548,917 | 29,732,660 | 4,538,091 |
| Total mezzanine equity | 5,199,039 | 10,255,662 | — | — | — | — |
| Total shareholders' (deficit)/equity | (2,395,775) | (5,674,531) | 29,803,597 | 4,548,917 | 29,732,660 | 4,538,091 |
| Total liabilities, mezzanine equity and shareholders' (deficit)/equity | 5,780,940 | 9,513,422 | 36,373,276 | 5,551,664 | 37,744,141 | 5,760,882 |

We had net current assets of RMB545.0 million, RMB386.1 million, RMB27.1 billion (US\$4.1 billion), and RMB26.8 billion (US\$4.1 billion) as of December 31, 2018, 2019, and 2020 and March 31, 2021, respectively.

Our net current assets slightly decreased from RMB27.1 billion (US\$4.1 billion) as of December 31, 2020 to RMB26.8 billion (US\$4.1 billion) as of March 31, 2021, primarily due to an increase of RMB1.2 billion in trade and notes payable for raw materials attributable to the expansion of our business, partially offset by (i) the increase of RMB335.7 million in inventories attributable to the expansion of our business, (ii) the increase of RMB484.3 million in cash and cash equivalents, restricted cash, and time deposits and short-term investments primarily attributable to the positive net cash flows provided by operating activities, and (iii) the increase of RMB124.9 million in prepayments and other current assets primarily attributable to the increased deductible VAT input and increased prepayments to vendors.

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Our net current assets increased from RMB386.1 million as of December 31, 2019 to RMB27.1 billion (US\$4.1 billion) as of December 31, 2020, primarily due to (i) an increase of RMB17.4 billion in time deposits and short-term investments attributable to an increase in redeemable and low-risk investment products and time deposits purchased at major banks in China and overseas, (ii) an increase of RMB7.6 billion in cash and cash equivalents due to cash proceeds from our Series D convertible redeemable preferred share financing, the initial public offering, and the follow-on offering in the United States, (iii) an increase of RMB1.1 billion in restricted cash attributable to an increase in deposits held in designated bank accounts for the issuance of letter of credit, bank guarantee, and bank acceptance bill, and (iv) a decrease of RMB1.6 billion in warrants and derivative liabilities primarily attributable to the exercise of conversion rights by the preferred shareholders upon the completion of the initial public offering in the United States.

Our net current assets decreased from RMB545.0 million as of December 31, 2018 to RMB386.1 million as of December 31, 2019, primarily due to (i) an increase of RMB1.6 billion in warrants and derivative liabilities attributable to the warrants and conversion feature related to preferred shares that were accounted for using fair value, (ii) an increase of RMB692.5 million in current convertible debts attributable to the convertible loan from Wunan, and (iii) a decrease of RMB505.1 million in prepayments and other current assets in connection with prepayments for raw materials, partially offset by (y) an increase of RMB1.4 billion in time deposits and short-term investments primarily attributable to an increase in redeemable and low-risk investment products and time deposits purchased at major banks in China and overseas, and (z) an increase of RMB1.2 billion in cash and cash equivalents primarily attributable to cash proceeds from our Series B3 and Series C convertible redeemable preferred share financings in 2019.

We had net assets of RMB2.8 billion, RMB4.6 billion, RMB29.8 billion (US\$4.5 billion), and RMB29.7 billion (US\$4.5 billion) as of December 31, 2018, 2019, and 2020 and March 31, 2021. The increase in net assets from 2018 to 2020 was primarily due to our financing activities including Series C and Series D convertible redeemable preferred share financing, the initial public offering, and the follow-on offering in the United States, while the slight decrease of net assets as of March 31, 2021 compared to the net assets as of December 31, 2020 was primarily due to the net loss for the three months ended March 31, 2021.

For a detailed discussion on our key balance sheet items and material changes in the various working capital items, see “Financial Information—Discussion of Certain Key Balance Sheet Items” and “—Liquidity and Capital Resources.”

SUMMARY

Summary Consolidated Statements of Cash Flows

| | For the Year Ended December 31, | | | | For the Three Months Ended March 31, | | |
|---|---------------------------------|-------------|--------------|-------------|--------------------------------------|-------------|-----------|
| | 2018 | 2019 | 2020 | | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | |
| Net cash flow (used in)/provided by operating activities before changes in operating assets and liabilities | (970,437) | (1,629,084) | 65,242 | 9,958 | (166,893) | 157,022 | 23,967 |
| Changes in operating assets and liabilities | (310,443) | (153,561) | 3,067,838 | 468,244 | 103,309 | 767,433 | 117,133 |
| Interest paid | — | 330 | 6,576 | 1,004 | 429 | 1,888 | 288 |
| Net cash (used in)/provided by continuing operating activities | (1,280,880) | (1,782,315) | 3,139,656 | 479,206 | (63,155) | 926,343 | 141,388 |
| Net cash (used in)/provided by discontinued operating activities | (65,925) | (11,395) | 148 | 23 | 148 | — | — |
| Net cash (used in)/provided by operating activities | (1,346,805) | (1,793,710) | 3,139,804 | 479,229 | (63,007) | 926,343 | 141,388 |
| Net cash used in investing activities | (191,512) | (2,574,836) | (18,737,725) | (2,859,935) | (181,417) | (2,892,396) | (441,466) |
| Net cash provided by/(used by) financing activities | 1,108,658 | 5,655,690 | 24,710,697 | 3,771,589 | (135,977) | — | — |
| Effects of exchange rate changes on cash, cash equivalents, and restricted cash | 3,299 | 53,722 | (376,646) | (57,487) | 4,660 | (24,104) | (3,679) |
| Net (decrease)/increase in cash, cash equivalents, and restricted cash | (426,360) | 1,340,866 | 8,736,130 | 1,333,396 | (375,741) | (1,990,157) | (303,757) |
| Cash, cash equivalents, and restricted cash at the beginning of the year/period | 521,883 | 95,523 | 1,436,389 | 219,234 | 1,436,389 | 10,172,519 | 1,552,630 |
| Cash, cash equivalents, and restricted cash at the end of the year/period | 95,523 | 1,436,389 | 10,172,519 | 1,552,630 | 1,060,648 | 8,182,362 | 1,248,873 |

We had net operating cash outflows of RMB1.3 billion and RMB1.8 billion in 2018 and 2019, primarily due to net loss recorded before we generated revenues. For more details, see “Financial Information—Liquidity and Capital Resources.”

SUMMARY

Reconciliation Between U.S. GAAP and IFRS

It should be noted that the consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. Preferred shares, convertible debts, leasing accounting, and financial assets at fair value through profit or loss are the four material reconciling items.

The effect of material differences between our historical financial information prepared under U.S. GAAP and IFRS are as follows:

Reconciliation of net loss attributable to ordinary shareholders of Li Auto Inc. in the consolidated statements of comprehensive loss

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|--|---------------------------------|---------------------------|----------------------------|--------------------------------------|-------------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | <i>(in thousands)</i> | | | <i>(unaudited)</i> | |
| Net loss attributable to ordinary shareholders of Li Auto Inc. as reported under U.S. GAAP | (1,849,638) | (3,281,607) | (791,985) | (233,732) | (359,967) |
| IFRS adjustments | | | | | |
| Preferred Shares | 330,125 | (1,054,423) | (29,965,125) | (343,126) | — |
| Convertible debts | 13,523 | (23,752) | 1,170 | (871) | — |
| Leases | (6,127) | (11,239) | (16,911) | (2,483) | (2,700) |
| Investments measured at fair value | 6,205 | — | 13,399 | — | (12,198) |
| Share-based compensation | — | (117,328) | 117,328 | (4,839) | — |
| Issuance costs | — | (9,488) | (28,737) | (3,665) | (6,498) |
| Net loss attributable to ordinary shareholders of Li Auto Inc. as reported under IFRS | <u>(1,505,912)</u> | <u>(4,497,837)</u> | <u>(30,670,861)</u> | <u>(588,716)</u> | <u>(381,363)</u> |

SUMMARY

Reconciliation of total shareholders' (deficit)/equity of the Group in the consolidated balance sheets and total shareholders' (deficit)/equity of the parent company in the parent company only balance sheets

| | As of December 31, | | | As of |
|--|--------------------|--------------------|-------------------|-------------------|
| | 2018 | 2019 | 2020 | March 31, |
| | RMB | RMB | RMB | 2021 |
| | (in thousands) | | | RMB |
| Total shareholders' (deficit)/equity as reported under U.S. GAAP | (2,395,775) | (5,674,531) | 29,803,597 | 29,732,660 |
| IFRS adjustments | | | | |
| Preferred Shares | 297,058 | (750,037) | — | — |
| Convertible debts | 13,018 | (10,734) | — | — |
| Leases | (10,177) | (21,416) | (38,327) | (41,027) |
| Investments measured at fair value | 6,205 | 6,205 | 19,604 | 7,406 |
| Issuance costs | — | (9,488) | — | (6,498) |
| Total shareholders' (deficit)/equity as reported under IFRS | (2,089,671) | (6,460,001) | 29,784,874 | 29,692,541 |

Please see “Financial Information—Reconciliation between U.S. GAAP and IFRS” for a more detailed discussion of the major differences between U.S. GAAP and IFRS in the main reconciling items.

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

The COVID-19 pandemic has affected China's automotive industry in general and our Company and our suppliers in particular, resulting in a reduction of vehicles manufactured and delivered in the first quarter of 2020. Due to the COVID-19 pandemic and the related nationwide precautionary and control measures that were adopted in China starting in January 2020, we postponed the production in our Changzhou manufacturing facility after the Chinese New Year holiday in February 2020 for approximately three weeks, and also experienced short-term delays in our suppliers' delivery of certain raw materials needed for production, such as the seat blanket and the cast blank of the brake caliper from Hubei Province, ranging from approximately two weeks to two months. As a result of varying levels of travel and other restrictions for public health concerns in various regions of China, we also temporarily postponed the delivery of Li ONE to our users for approximately one month. In addition, we did not open any new retail stores from January 2020 to April 2020. Following this temporary closure in February 2020, we reopened our retail stores and delivery and servicing centers and have resumed vehicle delivery to our users. By the end of March 2020, the business activities of our suppliers had fully recovered and their delivery of raw materials had resumed to the

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normal level. In May 2020, we started to open new retail stores as the spread of the COVID-19 slowed down in China. The delay in our production ramp-up, expansion of retail stores, and vehicle delivery adversely affected our results of operations for the first quarter of 2020. We did not experience any material cancellation of orders by our users during the COVID-19 pandemic.

Currently, our manufacturing facility has gradually increased its production capacity in accordance with anticipated vehicle delivery based on user orders, and we have not experienced significant constraints on our supply chain or significant increases in our supply costs as a result of the COVID-19 pandemic. Although our vehicle deliveries in the first quarter of 2020 were adversely affected by the COVID-19 pandemic, we achieved satisfactory delivery results in the second, third, and fourth quarter of 2020 and in the first quarter of 2021, as the impact of the COVID-19 pandemic began to alleviate starting from the second quarter of 2020, with most restrictive measures lifted and most of our operations back to the normal level. The total number of vehicles that we delivered in the second quarter of 2020 was 6,604, representing an increase of 128.0% from the first quarter of 2020. The total number of vehicles that we delivered in the third quarter of 2020 was 8,660, representing an increase of 31.1% from the second quarter of 2020. The total number of vehicles that we delivered in the fourth quarter of 2020 was 14,464, representing an increase of 67.0% from the third quarter of 2020. The total number of vehicles that we delivered in the first quarter of 2021 was 12,579, representing an increase of 334.4% from the first quarter of 2020 and a slight decrease of 13.0% from the fourth quarter of 2020. The extent to which the COVID-19 pandemic affects our financial condition, results of operations, and cash flows in the future will depend on the future developments of the pandemic, including the duration and severity of the pandemic, the extent and severity of new waves of outbreak in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment and the effectiveness of such vaccine and other medical treatment, and the actions taken by government authorities to contain the outbreak, all of which are highly uncertain, unpredictable, and beyond our control. In addition, our financial condition, results of operations, and cash flows could be adversely affected to the extent that the pandemic harms the Chinese economy in general. As of December 31, 2020 and March 31, 2021, we had a total of RMB29.9 billion (US\$4.6 billion) and RMB30.4 billion (US\$4.6 billion), respectively, in cash and cash equivalents, restricted cash, and time deposits and short-term investments. We believe that this level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

As of the date of this prospectus, we are not aware of any confirmed COVID-19 cases among our employees. In light of the uncertainties in the global market and economic conditions attributable to the COVID-19 pandemic, we will continue to evaluate the nature and extent of the impact of the COVID-19 pandemic to our financial condition and liquidity. See also “Risk Factors—Risks Relating to Our Business and Industry—Pandemics and epidemics, natural disasters, terrorist activities, political unrest, and other outbreaks could disrupt our production, delivery, and operations, which could materially and adversely affect our business, financial condition, and results of operations.” Our Directors believe that the COVID-19 pandemic would not materially affect our expansion plan or use of proceeds under the current situation.

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Liquidity Position

Under the worst case scenario that our operations were materially and adversely affected by the COVID-19 pandemic, our Directors believe that we would be able to remain financially viable for more than 10 years, taking account of the financials resources available to us as of March 31, 2021, and 10% of the estimated net proceeds from the Global Offering expected to be used for working capital and general corporate purposes, based on the assumptions that: (i) no revenue has been generated since March 31, 2021, (ii) labor cost is incurred to maintain at the same level of employees as that in the first quarter of 2021 for the projection period, (iii) fixed operations costs are maintained for research and development expenses and selling, general, and administration expenses (employee compensation and rental and related expenditure incurred to maintain at the same level as that in the first quarter of 2021), (iv) the business expansion and capital expenditure are suspended, (v) all liabilities as of March 31, 2021 is settled on a prudent basis, and (vi) a prudent estimate of the settlement of account receivable based on historical settlement pattern.

The above analysis under the COVID-19 pandemic is for illustrative purpose only and based on our Directors' direct assessment, and the likelihood of occurrence of such worst case scenario situation would be remote.

RECENT DEVELOPMENTS

Issuance of the 2028 Notes

In April 2021, we issued the US\$862.5 million in aggregate principal amount of 0.25% convertible senior notes due 2028, or the 2028 Notes, which may be converted, at an initial conversion rate of 35.2818 ADSs per US\$1,000 principal amount of notes (which represents an initial conversion price of US\$28.34 per ADS) at each holder's option at any time on or after November 1, 2027, until the close of business on the second scheduled trading day immediately preceding the maturity date of May 1, 2028, or at the option of the holders upon satisfaction of certain conditions and during certain periods prior to the close of business on business day immediately preceding November 1, 2027 based on an initial conversion rate of 35.2818 of our ADSs per US\$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2028 Notes bear interest at a rate of 0.25% per year, payable semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2021. Holders of the 2028 Notes may require the Company to repurchase all or part of their notes for cash on May 1, 2024 and on May 1, 2026, in each case, at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the relevant repurchase date. Assuming full conversion of the 2028 Notes at the initial conversion rate of 35.2818 ADSs per US\$1,000 principal amount, the 2028 Notes will be convertible into 30,430,552 ADSs, representing 60,861,104 Class A Ordinary Shares. For illustrative purposes only, 60,861,104 Class A Ordinary Shares represent approximately 2.88% of the total issued share capital (as if enlarged by the issue of such shares) of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share

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Incentive Plans). Other than optional redemption for changes in the tax laws, the 2028 Notes may not be redeemed by us at our option prior to maturity. For further details of the 2028 Notes, please see the section headed “History, Reorganization and Corporate Structure—Convertible Notes.”

After performing sufficient due diligence work that our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since March 31, 2021, being the end date of the periods reported on in the Accountant’s Report included in Appendix I to this prospectus, and there is no event since March 31, 2021 that would materially affect the information as set out in the Accountant’s Report included in Appendix I to this prospectus.

Recent Business Developments

The Li ONEs we sold during the Track Record Period were previous generation of Li ONEs with an NEDC range of 800 kilometers prior to our release of 2021 Li ONE. Subsequent to the Track Record Period, we delivered 5,539, 4,323, 7,713 and 8,589 Li ONEs in April, May, June, and July 2021, respectively. As of July 31, 2021, we delivered 72,340 Li ONEs in total. As Li ONE continues to gain traction rapidly, our new orders surpassed 10,000 in June 2021, hitting a record high. On July 10, 2021, we opened our 100th retail store.

On May 25, 2021, we released the 2021 Li ONE equipped with navigation on ADAS (NOA) as a standard configuration. The 2021 Li ONE features comprehensive upgrades, including an enhanced NEDC range of 1,080 kilometers, optimized mobility comfort, and more intelligent cockpit, bringing premium features to our users at an MSRP of RMB338,000 (approximately US\$52,000). We began deliveries of the 2021 Li ONE on June 1, 2021 and we delivered 7,333 2021 Li ONEs in June 2021.

In July 2021, we signed a memorandum of understanding with a local company for collaboration in a reconstruction and expansion project of an automobile manufacturing plant in Shunyi District, Beijing, China.

We were loss-making during the Track Record Period and expect to continue to incur widening net loss in 2021 primarily due to our continuing investments in (i) the research and development of our future models and autonomous driving solutions and (ii) the expansion of our sales and servicing network. See “Risk Factors—We recorded net losses and had negative net cash flows from operations in the past, and we have not been profitable, which may continue in the future.”

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Recent Regulatory Developments

On July 10, 2021, the Cyberspace Administration of China published the Measures for Cybersecurity Review (Revised Draft for Comments), which stipulate that if an operator has personal information of over one million users and intends to be listed in a foreign country, it must be subject to the cybersecurity review. As advised by our PRC Legal Advisor, the draft measures were released for public comment only, and its implementation provisions and anticipated adoption or effective date may be subject to change and thus remain substantially uncertain. We cannot predict the impact of the draft measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. See “Risk Factors—Our business is subject to various evolving PRC laws and regulations regarding data privacy and cybersecurity. Failure of cybersecurity and data privacy concerns could subject us to penalties, damage our reputation and brand, and harm our business and results of operations.”

Under the current PRC cybersecurity laws, critical information infrastructure operators that intend to purchase internet products and services that may affect national security must be subject to the cybersecurity review. As advised by our PRC Legal Advisor, the exact scope of “critical information infrastructure operators” under the draft measures and the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. Currently, the Cybersecurity Law has not directly affected our business and operations, but in anticipation of the strengthened implementation of cybersecurity laws and regulations and the expansion of our business, we face potential risks if we are deemed as a critical information infrastructure operator under the Cybersecurity Law. In such case, we must fulfill certain obligations as required under the Cybersecurity Law and other applicable laws, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we have fulfilled in our business, and we may be subject to review when purchasing internet products and services. If a final version of the draft measures is adopted, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. As of the date of this document, we have not been involved in any investigations on cybersecurity review made by the Cyberspace Administration of China on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we and our PRC Legal Advisor do not expect that, as of the date of this document, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

On July 6, 2021, the relevant PRC government authorities made public the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions are recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. See “Risk Factors—The

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approval of the CSRC or other PRC government authorities may be required in connection with this offering under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.” As of the date of this document, we have not received any inquiry, notice, warning, or sanctions regarding this offering from the CSRC or any other PRC government authorities. Based on the foregoing and the currently effective PRC laws, we and our PRC Legal Advisor are of the view that, as of the date of this document, these opinions do not have a material adverse impact on our business.

Based on the currently available information and independent due diligence work conducted by the Joint Sponsors, including but not limited to, (i) discussing with the management of the Company to understand, among others, the cybersecurity and data privacy control of the Company and imminent impact on the business of the Company caused by the current applicable PRC laws and the recent regulatory developments on cybersecurity; (ii) reviewing representations made by the Company in the responses to the due diligence questionnaire and the relevant supporting documents, and (iii) discussing with the PRC Legal Advisor on, among others, the potential impact and latest status of the aforementioned recent regulatory developments. Based on the foregoing facts and analysis and having considered the relevant due diligence conducted 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 Company’s and the PRC Legal Advisor’s views that (i) they do not expect that, as of the date of this document, the current applicable PRC laws on cybersecurity would have a material adverse impact on the business of the Company and (ii) as of the date of this document, the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law do not have a material adverse impact on the business of the Company.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The ADSs of our Company, each of which represents two Class A Ordinary Shares, were listed and began trading on the Nasdaq Global Select Market under the symbol “LI” on July 30, 2020. We have applied to the Listing Committee of the Stock Exchange for a dual primary listing of our Company’s Class A Ordinary Shares (as detailed below) on the Main Board of the Stock Exchange as an issuer with weighted voting rights structure under Chapter 8A of the Listing Rules.

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, (i) the Class A Ordinary Shares in issue and to be issued pursuant to the Global Offering (including the additional Class A Ordinary Shares which may be issued pursuant to the exercise of the Over-allotment Option); (ii) the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans; (iii) the Class A Ordinary Shares to be issued pursuant to the conversion of the 2028 Notes; and (iv) the Class A Ordinary Shares that are issuable upon conversion of the Class B Ordinary Shares on a one to one basis. We satisfy the market capitalization test under Rule 8A.06(1) of the Listing Rules and the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules, such that (a) our revenue for the year ended December 31, 2020 exceeded HK\$500 million and amounted to

SUMMARY

RMB9,456.6 million (equivalent to HK\$11,221.5 million); and (b) our expected market capitalization at the time of Listing, which, based on the indicative offer price of HK\$150.00 per Offer Share, exceeds HK\$40 billion.

FUTURE DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries and Consolidated Affiliated Entities. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in certain respects from the generally accepted accounting principles in other jurisdictions, including U.S. GAAP and IFRS. PRC accounting principles are substantially converged to IFRS. For the effects of material differences our historical financial information prepared under U.S. GAAP and IFRS, please see the section headed “Summary—Reconciliation Between U.S. GAAP and IFRS” in this prospectus. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises’ registered capital, if any, to fund its statutory common reserves, which are not available for distribution as cash dividends.

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us. We do not currently have an expected dividend payout ratio. Under Cayman Islands law, dividends can be distributed from (a) profits (current period or retained) or (b) share premium account, provided that a dividend may not be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises of:

- (i) the Hong Kong Public Offering of initially 10,000,000 Offer Shares (subject to adjustment) in Hong Kong as described in the section headed “Structure of the Global Offering—The Hong Kong Public Offering”; and
- (ii) the International Offering of an aggregate of initially 90,000,000 Offer Shares (subject to adjustment and the Over-allotment Option) pursuant to the shelf registration statement on Form F-3 that was filed with the SEC on August 2, 2021, including the preliminary prospectus supplement dated August 2, 2021 and the final prospectus supplement to be filed with the SEC on or about August 6, 2021 pursuant thereto, including the documents incorporated by reference therein.

SUMMARY

The Offer Shares will represent approximately 4.87% of the issued share capital of our Company immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes. If the Over-allotment Option is exercised in full, and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, the Offer Shares will represent approximately 5.56% of the issued share capital of our Company immediately following the completion of the Global Offering.

OFFERING STATISTICS

**Based on the indicative offer
price of HK\$150.00 per Offer
Share**

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|---|----------------------|
| Market capitalization of our Shares ⁽¹⁾ | HK\$307.8 billion |
| Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾ | HK\$25.75 (RMB21.70) |

Notes:

- (1) The calculation of market capitalization is based on the assumptions that (i) the Global Offering has been completed and 100,000,000 new Shares are issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised); and (ii) 2,051,845,710 Shares expected to be in issue immediately upon completion of the Global Offering.
- (2) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in Appendix II and on the basis that 1,909,921,322 Shares (for the purpose of this unaudited pro forma financial information excluding the 108,557,400 Class A Ordinary Shares issued pursuant to the 2021 Plan and 33,366,988 treasury shares issued in February 2021 to satisfy the future exercise of share options under the 2019 Plan and the 2020 Plan) were in issue assuming that the Global Offering had been completed on March 31, 2021. However, this does not take into account of any allotment and issuance of Shares upon the exercise of the Over-allotment Option, any Shares to be granted under the Share Incentive Plans.

For the calculation of the unaudited pro forma adjusted net tangible asset value per Share attributed to our Shareholders, see the section headed “Unaudited Pro Forma Financial Information” in Appendix II.

LISTING EXPENSES

The total listing expenses (including underwriting commissions) payable by our Company are estimated to be approximately HK\$297.9 million (representing approximately 2.0% of gross proceeds), assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes and based on the indicative offer price of HK\$150.00 per Offer Share. These listing expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the Underwriters, for their services rendered in relation to the Listing

SUMMARY

and the Global Offering. We expect approximately HK\$289.9 million of the listing expenses will be recorded as a deduction in equity directly and approximately HK\$8.0 million of the listing expenses will be charged to the profit or loss of our Company.

USE OF PROCEEDS

We estimate that we will receive net proceeds of HK\$14.7 billion after deducting underwriting discounts and commissions and estimated offering expenses payable by us in the Global Offering, assuming no Over-allotment Option is exercised and based on the indicative offer price of HK\$150.00 per Offer Share, or HK\$16.9 billion if the Over allotment Option is exercised in full.

In line with our strategies, we intend to use the net proceeds from the Global Offering for the following purposes:

- 45% of the net proceeds, or approximately HK\$6.6 billion, allocated to research and development in the next 12 to 36 months as follows:
 - (i) 20% of the net proceeds, or approximately HK\$2.9 billion, to fund the research and development of HPC BEV technologies, platforms, and future models, including to fund (a) the development of high C-rate battery, high-voltage platform, and ultra-fast charging technologies, (b) the development of our HPC BEV platforms, including Whale and Shark platforms, and (c) the development and launch of HPC BEV models planned for 2023;
 - (ii) 15% of the net proceeds, or approximately HK\$2.2 billion, to fund the research and development of intelligent vehicle and autonomous driving technologies, including to fund (a) the enhancement of intelligent vehicle systems, (b) the enhancement of the current Level 2 autonomous driving technology and the development of the Level 4 autonomous driving technology; and
 - (iii) 10% of the net proceeds, or approximately HK\$1.5 billion, to fund the research and development of future EREV models, including to fund (a) the development of a next-generation EREV platform, and (b) the development and launch of a new EREV model planned for 2022 and two more planned for 2023;

SUMMARY

- 45% of the net proceeds, or approximately HK\$6.6 billion, to fund infrastructure expansion and marketing and promotion in the next 12 to 36 months as follows:
 - (i) 25% of the net proceeds, or approximately HK\$3.7 billion, to fund the expansion of production capacity;
 - (ii) 10% of the net proceeds, or approximately HK\$1.5 billion, to fund the expansion of retail stores and delivery and servicing centers;
 - (iii) 5% of the net proceeds, or approximately HK\$0.7 billion, to fund the roll-out of HPC network; and
 - (iv) 5% of the net proceeds, or approximately HK\$0.7 billion, to fund marketing and promotion;

and

- 10% of the net proceeds, or approximately HK\$1.5 billion, for working capital and other general corporate purposes to support our business operation and growth in the next 12 months.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we may hold such funds in bank deposits at authorized financial institutions and/or licensed banks. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

See “Future Plans and Use of Proceeds” for further details.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms.”

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| “2019 Plan” | the share incentive plan our Company adopted on July 2, 2019, as amended from time to time, the principal terms of which are set out in “Statutory and General Information—Share Incentive Plans” in Appendix IV |
| “2020 Plan” | the share incentive plan our Company adopted on July 9, 2020, as amended from time to time, the principal terms of which are set out in “Statutory and General Information—Share Incentive Plans” in Appendix IV |
| “2021 Plan” | the share incentive plan our Company adopted on March 8, 2021, as amended from time to time, the principal terms of which are set out in “Statutory and General Information—Share Incentive Plans” in Appendix IV |
| “2028 Notes” | the convertible senior notes in an aggregate principal amount of US\$862.5 million due 2028 with an interest rate of 0.25% per annum that our Company issued on April 12, 2021 |
| “Accountant’s Report” | the audited consolidated financial statements of our Company for the Track Record Period, as included in Appendix I |
| “ADS(s)” | American Depositary Shares, each representing two Class A Ordinary Shares |
| “affiliate(s)” | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| “Articles” or “Articles of Association” | the fourth amended and restated articles of association of the Company adopted by a special resolutions of the shareholders of the Company on July 9, 2020 and effective on August 3, 2020, as amended from time to time, a summary of which is set out in “Summary of the constitution of the Company and Cayman Companies Law” in Appendix III |

DEFINITIONS

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| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Award Premium” | the premium payable by Mr. Li in respect of the CEO Award Shares, being US\$14.63 per share, as described in the section headed “Directors and Senior Management—Directors’ remuneration—Grant of CEO Award” |
| “Beijing CHJ” | Beijing CHJ Information Technology Co., Ltd.* (北京車和家信息技術有限公司), a limited liability company established under the laws of the PRC on April 10, 2015 and a Consolidated Affiliated Entity of our Company |
| “Beijing CLX” | Beijing Chelixing Information Technology Co., Ltd.* (北京車勵行信息技術有限公司), a limited liability company established under the laws of the PRC on June 25, 2018 and a Consolidated Affiliated Entity of our Company |
| “Beijing Leading” | Beijing Leading Automobile Sales Co., Ltd.* (北京勵鼎汽車銷售有限公司), a limited liability company established under the laws of the PRC on August 6, 2019 and a subsidiary of our Company |
| “Board” | the board of Directors |
| “business day” | any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong or other relevant jurisdictions are generally open for normal banking business |
| “BVI” | the British Virgin Islands |
| “Cayman Companies Act” or “Companies Act” | the Companies Act (As Revised) of the Cayman Islands, as amended or supplemented from time to time |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Clearing Participant” | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant |
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |

DEFINITIONS

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| “CCASS EIPO” | the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Center by completing an input request |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| “CCASS Participant” | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| “CEO Award Shares” | the 108,557,400 Class A Ordinary Shares to result from the conversion of the 108,557,400 Class B Ordinary Shares granted and issued pursuant to the 2021 Plan to Mr. Li on May 5, 2021. The conversion will take effect upon the Listing. For details please see section headed “Directors and Senior Management—Directors’ remuneration—Grant of CEO Award” |
| “Changzhou Chezhinan” | Changzhou Chezhinan Standard Factory Construction Co., Ltd.* (常州車之南標準廠房建設有限公司), a limited liability company established under the laws of the PRC on March 3, 2017 and a subsidiary of our Company |
| “China” or “the PRC” | the People’s Republic of China, and for the purposes of this document only, except where the context requires otherwise, excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan |

DEFINITIONS

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| “Chongqing Lixiang” | Chongqing Lixiang Automobile Co., Ltd.* (重慶理想汽車有限公司), a limited liability company established under the laws of the PRC on October 11, 2019 and a Consolidated Affiliated Entity of our Company |
| “Chongqing Xinfan” | Chongqing Xinfan Machinery Co., Ltd. (重慶新帆機械設備有限公司), a limited liability company established under the laws of the PRC on September 5, 2018 and a Consolidated Affiliated Entity of our Company |
| “Class A Ordinary Shares” | class A ordinary shares of the share capital of the Company with a par value of US\$0.0001 each, conferring a holder of a Class A Ordinary Share one vote per Share on any resolution tabled at the Company’s general meeting |
| “Class B Ordinary Shares” | class B ordinary shares of the share capital of the Company with a par value of US\$0.0001 each, conferring weighted voting rights in the Company such that a holder of a Class B Ordinary Share is entitled to ten votes per Share on any resolution tabled at the Company’s general meeting, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per Share |
| “Companies Ordinance” | Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Company”, “our Company”, or “the Company” | Li Auto Inc. (理想汽車) (formerly known as “Leading Ideal Inc.” and “CHJ Technologies Inc.”), a company with limited liability incorporated in the Cayman Islands on April 28, 2017 |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “connected transaction(s)” | has the meaning ascribed to it under the Listing Rules |

DEFINITIONS

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| “Consolidated Affiliated Entity(ies)” | entities we control wholly or partly through the Contractual Arrangements, namely our VIEs and their subsidiaries, details of which are set out in the section headed “History, Reorganization and Corporate Structure” |
| “Contractual Arrangement(s)” | the series of contractual arrangements entered into between the WFOE, our VIEs and the Registered Shareholders (as applicable), as detailed in the section headed “Contractual Arrangements” |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Li and the intermediary companies through which Mr. Li has an interest in the Company, namely, Amp Lee Ltd. and Cyric Point Enterprises Limited, as further detailed in the section headed “Relationship with the Controlling Shareholders” |
| “CSRC” | the China Securities Regulatory Commission of the PRC (中國證券監督管理委員會) |
| “Depository” | Deutsche Bank Trust Company Americas, the depository of our ADSs |
| “Director(s)” | the director(s) of our Company |
| “Extreme Conditions” | extreme conditions caused by a super typhoon as announced by the Government of Hong Kong |
| “GAAP” | generally accepted accounting principles |
| “Global Offering” | the Hong Kong Public Offering and the International Offering |
| “Governmental Authority” | any governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organization, or other non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational |

DEFINITIONS

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| “ GREEN Application Form(s)” or “Application Form(s)” | the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited |
| “Group”, “our Group”, “the Group”, “we”, “us”, or “our” | the Company, its subsidiaries and the Consolidated Affiliated Entities from time to time, and where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries and Consolidated Affiliated Entities, such subsidiaries and Consolidated Affiliated Entities as if they were subsidiaries and Consolidated Affiliated Entities of our Company at the relevant time |
| “HK” or “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “HKSCC” | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| “Hong Kong dollars” or “HK dollars” or “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong Offer Shares” | the 10,000,000 Class A Ordinary Shares offered pursuant to the Hong Kong Public Offering |
| “Hong Kong Public Offering” | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Public Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus, as further described in the section headed “Structure of the Global Offering—The Hong Kong Public Offering” |
| “Hong Kong Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “Hong Kong Takeovers Code” or “Takeovers Code” | Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time |

DEFINITIONS

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| “Hong Kong Underwriters” | the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting—Hong Kong Underwriters” |
| “Hong Kong Underwriting Agreement” | the Hong Kong underwriting agreement, dated August 2, 2021, relating to the Hong Kong Public Offering, entered into by our Company, the Joint Sponsors, the Joint Global Coordinators and the Hong Kong Underwriters, as further described in the section headed “Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Hong Kong Underwriting Agreement” |
| “IFRS” | International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board |
| “Independent Third Party(ies)” | a person or entity which, to the best of our Directors’ knowledge, information, and belief having made all reasonable enquiries, is not a connected person of our Company within the meaning of the Listing Rules |
| “International Offer Price” | the final offer price per International Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) |
| “International Offer Shares” | the 90,000,000 Class A Ordinary Shares offered pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option |
| “International Offering” | the conditional placing of the International Offer Shares at the International Offer Price pursuant to the shelf registration statement on Form F-3 that was filed with the SEC and automatically became effective on August 2, 2021, a preliminary prospectus supplement, and a final prospectus supplement, and subject to the terms and conditions of the International Underwriting Agreement, as further described in the section headed “Structure of the Global Offering” |
| “International Underwriters” | the underwriters of the International Offering |

DEFINITIONS

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| “International Underwriting Agreement” | the international underwriting agreement, expected to be entered into on or about August 6, 2021, relating to the International Offering, expected to be entered into by our Company, the Joint Global Coordinators and the International Underwriters, as further described in the section headed “Underwriting—International Offering—International Underwriting Agreement” |
| “Jiangsu Chehejia” | Jiangsu Chehejia Automobile Co., Ltd.* (江蘇車和家汽車有限公司), a limited liability company established under the laws of the PRC on June 23, 2016 and a subsidiary of our Company |
| “Jiangsu Xitong” | Jiangsu Xitong Machinery Equipment Co., Ltd.* (江蘇希通機械設備有限公司), a limited liability company established under the laws of the PRC on February 15, 2017 and a subsidiary of our Company |
| “Jiangsu Zhixing” | Jiangsu Zhixing Financial Leasing Co., Ltd.* (江蘇智行融資租賃有限公司), a limited liability company established under the laws of the PRC on March 28, 2018 and a subsidiary of our Company |
| “Joint Bookrunners” | Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch, UBS Securities LLC (in relation to the International Offering only), CLSA Limited, BOCI Asia Limited, CMB International Capital Limited and Futu Securities International (Hong Kong) Limited |
| “Joint Global Coordinators” | Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited and UBS AG Hong Kong Branch |
| “Joint Lead Managers” | Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch, UBS Securities LLC (in relation to the International Offering only), CLSA Limited, BOCI Asia Limited, CMB International Capital Limited and Futu Securities International (Hong Kong) Limited |
| “Joint Sponsors” | Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited |

DEFINITIONS

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| “Latest Practicable Date” | July 25, 2021, being the latest practicable date for ascertaining certain information in this document before its publication |
| “Laws” | all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions |
| “Listing” | the listing of the Class A Ordinary Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Date” | the date, expected to be on or about Thursday, August 12, 2021, on which the Class A Ordinary Shares are to be listed and on which dealings in the Class A Ordinary Shares are to be first permitted to take place on the Stock Exchange |
| “Listing Rules” or “Hong Kong Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “Main Board” | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange |
| “Memorandum” or “Memorandum of Association” | the fourth amended and restated memorandum of association of the Company adopted by a special resolutions of the shareholders of the Company on July 9, 2020 and effective on August 3, 2020, as amended from time to time, a summary of which is set out in “Summary of the constitution of the Company and Cayman Companies Law” in Appendix III |
| “MIIT” | Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry) |

DEFINITIONS

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| “MOF” | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| “MOFCOM” | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “Mr. Li” or “Founder” | Mr. Li Xiang |
| “Nasdaq” or “Nasdaq Global Select Market” | The Nasdaq Global Select Market |
| “NDRC” | National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| “NPC” | National People’s Congress of the PRC (中華人民共和國全國人民代表大會) |
| “Offer Share(s)” | the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares to be issued by our Company pursuant to the exercise of the Over-allotment Option |
| “Over-allotment Option” | the option expected to be granted by our Company to the International Underwriters, exercisable by the Stabilizing Manager on behalf of the International Underwriters for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 15,000,000 additional Shares (representing in aggregate 15% of the initial Offer Shares) to the International Underwriters to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering—Over-allotment Option” |
| “PBOC” | People’s Bank of China |
| “Performance Condition(s)” | the performance condition in respect of each tranche of the CEO Award Shares as described in the section headed “Directors and Senior Management—Directors’ remuneration—Grant of CEO Award” |
| “PRC Legal Advisor” | Han Kun Law Offices, our legal advisor on PRC law |

DEFINITIONS

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| “Price Determination Agreement” | the agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or about the Price Determination Date to record and fix the pricing of the Offer Shares |
| “Price Determination Date” | the date, expected to be on or about Friday, August 6, 2021, on which the International Offer Price and final Public Offer Price will be determined, or such later time as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and we may agree, but in any event, not later than Tuesday, August 10, 2021 |
| “Public Offer Price” | the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) |
| “Registered Shareholders” | the registered shareholders of our VIEs, namely, with respect to Beijing CHJ, Li Xiang, Shen Yanan and Li Tie; and with respect to Xindian Information, Li Xiang, Fan Zheng, Shen Yanan, Li Tie, Qin Zhi, Liu Qinghua, Wei Wei, Song Gang, Ye Qian and Xu Bo |
| “Relevant Persons” | the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their or the Company’s respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering |
| “Reserved Matters” | those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company’s auditors, and (iv) the voluntary liquidation or winding-up of the Company |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of China |
| “SAFE” | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |

DEFINITIONS

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| “SAIC” | the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which has now been merged into the SAMR |
| “SAMR” | the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局) |
| “SASAC” | the State-Owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會) |
| “SAT” | State Administration of Taxation (國家稅務總局) |
| “SEC” | the U.S. Securities and Exchange Commission |
| “SFC” | Securities and Futures Commission of Hong Kong |
| “SFO” or “Securities and Futures Ordinance” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Share(s)” | the Class A Ordinary Shares and Class B Ordinary Shares in the share capital of the Company, as the context so requires |
| “Share Incentive Plans” | collectively, the 2019 Plan, the 2020 Plan and the 2021 Plan |
| “Shareholder(s)” | holder(s) of our Share(s) |
| “Stabilizing Manager” | Goldman Sachs (Asia) L.L.C. |
| “State Council” | State Council of the PRC (中華人民共和國國務院) |
| “Stock Borrowing Agreement” | the agreement expected to be entered into on or around the Price Determination Date between the Stabilizing Manager or its affiliates and Inspired Elite Investments Limited, pursuant to which the Stabilizing Manager may, on its own or through its affiliates, request Inspired Elite Investments Limited to make available to the Stabilizing Manager or its affiliates up to a total of 15,000,000 Class A Ordinary Shares to cover over-allocations in the International Offering |
| “Stock Exchange” or “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |

DEFINITIONS

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|---|---|
| “subsidiary” or “subsidiaries” | has the meaning ascribed to it in section 15 of the Companies Ordinance |
| “substantial shareholder(s)” | has the meaning ascribed to it in the Listing Rules |
| “Track Record Period” | the three years ended December 31, 2020 and the three months ended March 31, 2021 |
| “U.S. GAAP” | Generally Accepted Accounting Principles in the United States |
| “U.S. Securities Act” | United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “Underwriters” | the Hong Kong Underwriters and the International Underwriters |
| “Underwriting Agreements” | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| “United States”, “U.S.” or “US” | United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| “US dollars”, “U.S. dollars”, “US\$” or “USD” | United States dollars, the lawful currency of the United States |
| “VAT” | value-added tax |
| “VIEs”, each a “VIE” | Beijing CHJ and Xindian Information |
| “weighted voting right” | has the meaning ascribed to it in the Listing Rules |
| “WFOE” | Wheels Technology |
| “Wheels Technology” | Beijing Co Wheels Technology Co., Ltd.* (北京羅克維爾斯科技有限公司), a limited liability company established under the laws of the PRC on December 19, 2017 and a subsidiary of our Company |
| “White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited |

DEFINITIONS

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| “White Form eIPO” | the application for Hong Kong Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider, at www.eipo.com.hk |
| “WVR Beneficiary” | has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Li, being the beneficial owner of the Class B Ordinary Shares which carry weighted voting rights, details of which are set out in the section headed “Share Capital” |
| “WVR Structure” | has the meaning ascribed to it in the Listing Rules |
| “Xindian Information” | Beijing Xindian Transport Information Technology Co., Ltd.* (北京心電出行信息技術有限公司), a limited liability company established under the laws of the PRC on March 27, 2017 and a Consolidated Affiliated Entity of our Company |
| “Xindian Interactive” | Jiangsu Xindian Interactive Sales and Services Co., Ltd.* (江蘇心電互動汽車銷售服務有限公司), a limited liability company established under the laws of the PRC on May 8, 2017 and a subsidiary of our Company |
| “%” | per cent |

* *For identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this document in connection with us and our business. These may not correspond to standard industry definitions, and may not be comparable to similarly terms adopted by other companies.

| | |
|-------------------------|--|
| “ADAS” | advanced driver-assistance systems |
| “BEVs” | battery electric passenger vehicles |
| “BOM” | bill of materials |
| “C-AHI” | China Automobile Health Index |
| “C-IASI” | China Insurance Automotive Safety Index |
| “C-NCAP” | China-New Car Assessment Program |
| “EREVs” | extended-range electric passenger vehicles |
| “FCEVs” | fuel-cell electric vehicles |
| “FOTA” | firmware over-the-air, a technology that updates vehicle firmware and software remotely through cloud network |
| “high C-rate battery” | battery cells with 4C fast charging capability |
| “high-voltage platform” | a platform utilizing a high power density electric powertrain system, leveraging electronic components based on third-generation wide bandgap SiC semiconductor materials and other advanced designs and technologies |
| “HMI” | human-machine interaction, an indispensable capability for smart vehicles as it enables people to connect with and control vehicles smoothly, including voice recognition and interaction, touch panels, infotainment screens, and in-car applications |
| “HPC network” | high-power charging network |
| “HPC BEVs” | BEVs with ultra-fast charging capability |
| “ICE” | internal combustion engine |

GLOSSARY OF TECHNICAL TERMS

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| “in-car technologies” | in-car technologies, primarily including (i) four-display interactive system, (ii) full-coverage in-car voice control system, and (iii) autonomous driving technologies |
| “LiDAR” | light detection and ranging, a remote sensing method that uses light to measure the distance or range of objects |
| “Mesh” | a new generation of vehicle cloud system, which enables inter-communication among the vehicle, the cloud, and the mobile application in a distributed grid |
| “MPVs” | multi-purpose vehicles |
| “MSRP” | manufacturer suggested retail price |
| “NEDC” | New European Driving Cycle |
| “NEVs” | new energy passenger vehicles, primarily including BEVs, EREVs, PHEVs, and FCEVs |
| “NOA” | navigation on ADAS |
| “NVH performance” | noise, vibration, and harshness performance |
| “OTA” | over-the-air, a technology that updates vehicle software remotely through cloud network |
| “PHEVs” | plug-in hybrid electric passenger vehicles |
| “SUVs” | sport utility vehicles |
| “XCU” | vehicle control and computing unit, which executes cross-domain control calculations among the vehicle powertrain, chassis, central gateway, and body, while cooperating with cloud platforms and other on-board computing units to enhance vehicle hardware performance and smart vehicle control |

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “aim”, “aspire”, “objective”, “target”, “schedules” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this prospectus), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- our future general and administrative expenses;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed “Risk Factors.”

FORWARD-LOOKING STATEMENTS

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

All forward-looking statements in this prospectus are expressly qualified by reference to this cautionary statement.

RISK FACTORS

An investment in our Class A ordinary shares or ADSs involves significant risks. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Class A ordinary shares or ADSs. Any of the following risks could have a material adverse effect on our business, financial condition, and results of operations. In any such case, the market price of our Class A ordinary shares or ADSs could decline, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We have a limited operating history and face significant challenges as a new entrant into our industry.

We were founded in 2015, started volume production of our first vehicle model, Li ONE, in November 2019, and delivered over 72,000 Li ONEs as of July 31, 2021. There is no historical basis for making judgments on the demand for our vehicles or our ability to develop, manufacture, and deliver vehicles, or our profitability in the future. It is difficult to predict our future revenues and appropriately budget for our expenses, and we may have limited insight into trends that may emerge and affect our business. You should consider our business and prospects in light of the risks and challenges we face as a new entrant into our industry, including with respect to our ability to continuously advance our EV technologies such as EREV and HPC BEV technologies, to develop and manufacture safe, reliable, and quality vehicles that appeal to users; delivery and servicing of a large volume of vehicles; turn profitable; build a well-recognized and respected brand cost-effectively; expand our vehicle lineup; navigate the evolving regulatory environment; improve and maintain our operational efficiency; manage supply chain effectively; and adapt to changing market conditions, including technological developments and changes in competitive landscape; and manage our growth effectively.

While we currently focus on SUVs equipped with range extension systems, we will introduce new models in other categories or using other technologies that we have less experience in, such as BEV models or BEV technologies, as we may adjust our strategies and plans from time to time to remain competitive as a new entrant into our industry. If we fail to address any or all of these risks and challenges, our business may be materially and adversely affected.

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

The sustainability of our business depends, in large part, on our ability to timely execute our plan to develop, manufacture, and deliver on a large scale automobiles of high quality and appeal to users. The current annual production capacity of our own Changzhou manufacturing facility is 100,000 units with a utilization rate of approximately 36% in 2020, which we plan

RISK FACTORS

to fully utilize and increase to 200,000 vehicles in 2022. Our Changzhou manufacturing facility will continue to produce Li ONE and, with additional investment in necessary tooling and fixture upgrades, our planned full-size premium smart extended-range electric SUV. To date we have limited automobile manufacturing experience to balance production volume and vehicle quality and appeal, and therefore cannot assure you that we will be able to achieve our targeted production volume of commercially viable vehicles on a timely basis, or at all.

Our continued development, manufacturing, and delivery of automobiles of high quality to achieve our targeted production volume are and will be subject to risks, including with respect to:

- lack of necessary funding;
- delays or disruptions in our supply chain;
- delays in the research and development of technologies necessary for our vehicles;
- quality control deficiencies;
- compliance with environmental, workplace safety, and relevant regulations; and
- cost overruns.

Historically, automakers are expected to periodically introduce new and improved models to stay abreast of the market. To remain competitive, we may be required to introduce new vehicle models and perform facelifts on existing vehicle models earlier or more frequently than is originally planned. We cannot assure you that facelifts on Li ONE or any future models we launch will appeal to the users as we expect or that any introduction of new models or facelifts will not affect the sales of existing models.

Furthermore, we rely on third-party suppliers for the provision and development of many of the key components and materials used in our vehicles. To the extent our suppliers experience any difficulties in providing us with or developing necessary components, we could experience delays in delivering vehicles. Any delay in the development, manufacturing, and delivery of Li ONE or future models, or in performing facelifts to existing models, could subject us to user complaints and materially and adversely affect our reputation, demand for our vehicles, and our growth prospects.

Any of the foregoing could materially and adversely affect our business, financial condition, and results of operations.

RISK FACTORS

We currently depend on revenues generated from a single model of vehicles and in the foreseeable future from a limited number of models.

Our business currently depends substantially on the sales and success of Li ONE, which is our only production model in the market until the introduction of our planned full-size premium smart extended-range electric SUV in 2022, and two more extended-range electric SUV models. Starting from 2023, we plan to launch at least two new HPC BEV models each year. To the extent our product variety and cycles do not meet consumer expectations, or cannot be achieved on our projected timelines and cost and volume targets, our future sales may be adversely affected. Given that for the foreseeable future our business will depend on a limited number of vehicle models, to the extent a particular model, such as our planned HPC BEV model, is not timely launched or well-received by the market, our sales volume could be materially and adversely affected, which in turn could materially and adversely affect our business, financial condition, and results of operations.

Our vehicles are designed and manufactured for Chinese families, and this is likely the case in the foreseeable future. If the demand for our vehicles significantly decreases, due to a significant change in the average spending power of Chinese families, significant decrease in the number of Chinese families, mismatched market positioning, or other reasons, our business, financial condition, results of operations, and prospects could be materially and adversely affected.

In addition, our single standard configuration with a flat price for Li ONE may not be as effective as we intend. We provide premium and technology features that are typically offered as costly add-ons by our competitors as standard in Li ONE, to save users' time and money while alleviating our burden in production, sales, and support. However, we cannot assure you that such endeavors will succeed. Users may prefer personalized features based on diversified tastes and needs. In addition, our flat pricing could still exceed certain users' budget significantly. To the extent that we are unable to meet various user needs in promoting our single standard configuration with flat pricing for Li ONE, our business may be materially and adversely affected.

We are subject to risks associated with EREVs.

EREVs accounted for only 2.8% of the NEV market in terms of sales volume in 2020, according to the CIC Report. EREV technologies are advanced technologies with limited instances of successful commercialization. There is no assurance that EREVs will be continue to be accepted by the market. Moreover, our business and future results of operations will depend on our ability to continue to develop our EREV technologies and improve the performance and efficiency in a cost-effective and timely manner. Our research and development efforts may not be sufficient to adapt to changes in the EREV technologies as well as developments in other EV technologies, including BEV technology, which may reduce the competitive advantages of EREV technology. As technologies evolve, we plan to upgrade or adapt our vehicles and introduce new models with the latest technologies, including EREV

RISK FACTORS

technologies. This will require us to invest resources in research and development and to cooperate effectively on new designs with our suppliers, develop actionable insights from data analysis and user feedback, and respond effectively to technological changes and policy and regulatory developments.

As a pioneer to successfully commercialize EREVs in China, we have limited experience to date in volume production of EREVs. We cannot assure you that we will be able to maintain efficient and automated manufacturing capabilities and processes, or reliable sources of component supply that will enable us to meet the quality, price, design, engineering, and production standards, as well as the production volumes to satisfy the market demand for Li ONE and future models.

We also believe that user confidence in EREVs is essential in promoting our vehicles. As a result, consumers will be less likely to purchase our EREVs if they are not convinced of the technical and functional superiority of EREVs. Any defects in or significant malfunctioning of the range extension system, or any negative perceptions of EREVs with or without any grounds, may weaken consumer confidence in EREVs, cause safety concerns among consumers and negatively impact our brand name, financial condition, and results of operations. Similarly, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with us if they are not convinced that our business will succeed.

We recorded net losses and had negative net cash flows from operations in the past, and we have not been profitable, which may continue in the future.

We have not been profitable since our inception. We incurred net loss of RMB1.5 billion, RMB2.4 billion, RMB151.7 million (US\$23.1 million), and RMB360.0 million (US\$54.9 million) in 2018, 2019, and 2020 and for the three months ended March 31, 2021, respectively. We expect to continue to incur widening net loss in 2021 primarily due to our continuing investments in (i) the research and development of our future models and autonomous driving solutions, and (ii) the expansion of our production facilities and sales and servicing network. In addition, we had negative net cash flows from operating activities of RMB1.3 billion and RMB1.8 billion in 2018 and 2019, respectively. In 2020 and for the three months ended March 31, 2021, we had positive net cash flows from operating activities of RMB3.1 billion (US\$479.2 million) and RMB926.3 million (US\$141.4 million), respectively. We made capital expenditures of RMB970.7 million, RMB952.9 million, RMB675.2 million (US\$103.1 million), and RMB356.1 million (US\$54.4 million) in 2018, 2019, and 2020 and for the three months ended March 31, 2021, respectively. The pressure on us to generate or maintain positive cash flow may be further exacerbated by our contractual obligations, including capital commitments, operating lease obligations, purchase obligations, finance leases and borrowings. We expect to continue to invest in the production ramp-up of Li ONE, expansion of the Changzhou manufacturing facility, expansion of retail stores, galleries, and delivery and servicing centers, and research and development to further expand our business. These investments may not result in revenue increase, or at all, and we may have negative net cash flows from operations again in the future.

RISK FACTORS

We may not generate sufficient revenues or continue to incur substantial losses for a number of reasons, including lack of demand for our vehicles, increasing competition, and other risks discussed herein, and we may incur unforeseen expenses, or encounter difficulties, complications, or delays in deriving revenues or achieving profitability.

Our vehicles may not perform in line with user expectations and may contain defects.

Our vehicles, including Li ONE, may not perform in line with user expectations. Any product defects or any other failure of our vehicles to perform or operate as expected could harm our reputation and result in negative publicity, lost revenue, delivery delays, product recalls, product liability claims, harm to our brand, and significant expenses including warranty and other items that could materially and adversely affect our business, financial condition, results of operations, and prospects.

Our vehicles may contain design and manufacturing defects. The design and manufacturing of our vehicles are complex and could contain latent defects and errors, which may cause our vehicles not to perform or operate as expected or even result in property damage or personal injuries. Furthermore, our vehicles use a substantial amount of third-party and in-house software codes and complex hardware to operate. Advanced technologies are inherently complex, and defects and errors may be revealed over time. Our control over the long-term consistent performance of third-party services and systems is limited. While we have performed extensive internal testing on our vehicles' software and hardware systems, we have a limited frame of reference by which to assess the long-term performance of our systems and vehicles. We cannot assure you that we will be able to detect and fix any defects in the vehicles on a timely basis, or at all.

In addition, we have limited operating history in testing, delivering, and servicing our vehicles. Although we have established rigorous protocols in each process of testing, delivering, and servicing of our vehicles where manual operations are required, there could be maloperation, negligence, or failure to follow protocols by our employees or third-party service providers. Such human error could result in failure of our vehicles to perform or operate as expected. We cannot assure you that we will be able to completely prevent human errors.

In addition, any defects in or significant malfunctioning of the range extension system may weaken user confidence in EREVs. If any of our vehicles fail to perform or operate as expected, whether as a result of human error or otherwise, we may need to delay deliveries, initiate product recalls, provide servicing or updates under warranty at our expense, and face potential lawsuits, which could adversely affect our brand, business, financial condition, and results of operations.

RISK FACTORS

We may not be successful in the highly competitive China automotive market.

The China automotive market is highly competitive. We compete with ICE vehicles as well as new energy vehicles, including BEVs. Many of our current and potential competitors or new market entrants have significantly greater financial, technical, manufacturing, marketing and branding, talents, and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, marketing, sales, and support of their vehicles.

We expect competition in the China automotive market to intensify in the future in light of intense price competition and phase-out of government subsidies. Factors affecting competition include, among others, technological innovation, product quality and safety, product pricing, sales efficiency, manufacturing efficiency, quality of services, branding, and design and styling. Increasing competition may lead to lower vehicle unit sales and increasing inventory, which may result in downward price pressure and may adversely affect our business, financial condition, results of operations, and prospects. Our ability to successfully compete against other vehicle brands will be fundamental to our future success in existing and new markets and our market share. We cannot assure you that we will be able to compete successfully in our markets. If products from our competitors successfully compete with or surpass the quality or performance of our vehicles at more competitive prices, our profitability and results of operations may be materially and adversely affected.

We may not succeed in continuing to establish, maintain, and strengthen our brand, and our brand and reputation could be harmed by negative publicity with respect to us, our directors, officers, employees, shareholders, peers, business partners, or our industry in general.

Our business and prospects are affected by our ability to develop, maintain, and strengthen our brand. If we fail to do so we may lose the opportunity to build a critical mass of users. Promoting and positioning our brand will likely depend significantly on our ability to provide high quality vehicles and services and engage with our users as intended, and we have limited experience in these areas. In addition, we expect that our ability to develop, maintain, and strengthen the brand will depend heavily on the success of our branding efforts. We market our brand through media, word-of-mouth, events, and advertising. Such efforts may not achieve the desired results. If we do not develop and maintain a strong brand, our business, financial condition, results of operations, and prospects will be materially and adversely affected.

Our reputation and brand are vulnerable to many threats that can be difficult or impossible to predict, control, and costly or impossible to remediate. From time to time, our vehicles are reviewed by media or other third parties. Any negative reviews or reviews that compare us unfavorably to competitors could adversely affect consumer perception about our vehicles. Negative publicity about us, such as alleged misconduct, unethical business practices, or other improper activities, or rumors relating to our business, directors, officers, employees, or shareholders, or negative publicity about other companies that use the same or similar brand name as ours, can harm our reputation, business, and results of operations, even if they are

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baseless, irrelevant, or satisfactorily addressed. These allegations, even if unproven or meritless, may lead to inquiries, investigations, or other legal actions against us by regulatory or government authorities as well as private parties. Any regulatory inquiries or investigations and lawsuits against us, perceptions of inappropriate business conduct by us or perceived wrongdoing by any member of our management team, among other things, could substantially damage our reputation, and cause us to incur significant costs to defend ourselves. Any negative market perception or publicity regarding our suppliers or other business partners that we closely cooperate with, or any regulatory inquiries or investigations and lawsuits initiated against them, may also have an impact on our brand and reputation, or subject us to regulatory inquiries or investigations or lawsuits. Moreover, any negative media publicity about the auto industry, especially the NEV industry, or product or service quality problems of other automakers in the industry in which we operate, including our competitors, may also negatively impact our reputation and brand. In particular, given the popularity of social media, including WeChat and Weibo in China, any negative publicity, whether true or not, such as road accidents, vehicle self-ignition, or other perceived or actual safety issues, could quickly proliferate and harm user perceptions and confidence in our brand. Perceived or actual concerns on battery deterioration that are often associated with NEVs could also negatively impact user confidence in EREVs and our vehicles in particular. If we are unable to maintain a good reputation or further enhance our brand recognition, our ability to attract and retain users, third-party partners, and key employees could be harmed and, as a result, our business, financial position, and results of operations could be materially and adversely affected.

Our research and development efforts may not yield the results as expected.

As an emerging automaker, we heavily rely on research and development to establish and strengthen our market position. We develop electric vehicle technologies, such as next-generation EREV powertrain system, high C-rate battery, high-voltage platform, ultra-fast charging technologies, autonomous driving technologies, next-generation intelligent cockpit, operating systems, and computing platforms. In 2018, 2019, and 2020 and for the three months ended March 31, 2021, our research and development expenses amounted to RMB793.7 million, RMB1.2 billion, RMB1.1 billion (US\$167.9 million), and RMB514.5 million (US\$78.5 million), respectively. Our research and development expenses accounted for 11.6% and 14.4% of our total revenues in 2020 and for the three months ended March 31, 2021, respectively. As technologies evolve, we plan to upgrade or adopt our vehicles and introduce new models with latest technologies, which will require us to invest resources in research and development. Therefore, we expect that our research and development expenses will continue to be significant. As research and development activities are inherently uncertain, we cannot assure you that we will continue to achieve desirable developments from our research and development activities and successfully commercialize such developments. Consequently, our significant research and development efforts may not yield the results as expected. If our research and development efforts fail to keep up with the latest technological developments, we could suffer a decline in our competitive position, which may materially and adversely affect our business, financial condition, and results of operations.

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We could experience disruptions in supply of raw materials or components used in our vehicles from our suppliers, some of which are our single-source suppliers for the components they supply.

Li ONE uses over 1,900 parts, including battery cells and semiconductor chips, that we source from over 190 suppliers, some of which are currently our single-source suppliers selected from two or more suppliers that are readily available in the market for these components, and we expect that this may continue for our future vehicles that we may produce. We also rely on key raw materials, such as steel and aluminum, sourced from our suppliers. The supply chain exposes us to multiple potential sources of delivery failure or component shortages. Although we reserve the flexibility to obtain components from multiple sources whenever possible, similar to other players in our industry, many of the components used in our vehicles are purchased by us from a single source. Following the disruptions to semiconductor manufacturers due to the COVID-19 pandemic and an increase in global demand for personal computers for work-from-home economies, there is an ongoing global chip shortage, which would materially and adversely affect the automotive industry. The supply chain exposes us to multiple potential sources of delivery failure or component shortages.

We do not control our suppliers or their business practices. Accordingly, we cannot guarantee that the quality of the components manufactured by them will be consistent and maintained to a high standard. Any defects of or quality issues with these components or any noncompliance incidents associated with these third-party suppliers could result in quality issues with our vehicles and hence compromise our brand image and results of operations. Additionally, we cannot guarantee the suppliers' compliance with ethical business practices, such as environmental responsibilities, fair wage practices, and compliance with child labor laws, among others. A lack of demonstrated compliance could lead us to seek alternative suppliers, which could increase our costs and results in delayed delivery of our products, product shortages, or other disruptions of our operations.

Furthermore, qualifying alternate suppliers or developing our own replacements for certain highly customized components of Li ONE may be time consuming and costly. Any disruption in the supply of components, whether or not from a single-source supplier, could temporarily disrupt production of our vehicles until an alternative supplier is fully qualified by us or is otherwise able to supply us the required material. We cannot assure you that we would be able to successfully retain alternative suppliers or supplies on a timely basis, on acceptable terms, or at all. Changes in business conditions, force majeure, government changes, or other factors beyond our control or anticipation, could also affect our suppliers' ability to deliver components to us on a timely basis. Moreover, if we experience a significant increase in demand or need to replace our existing suppliers, there can be no assurance that additional supplies will be available when required on terms that are favorable to us, or at all, or that any supplier would allocate sufficient supplies to us in order to meet our requirements or fill our orders in a timely manner. Any of the foregoing could materially and adversely affect our business, financial condition, results of operations, and prospects.

RISK FACTORS

Orders for Li ONE may be canceled by users despite their deposit payment and online confirmation.

Our users may cancel their orders for many reasons outside of our control, and we have experienced cancellation of orders in the past. In addition, users may terminate their orders even after they have paid deposits and waited for 24 hours upon which their orders automatically become confirmed orders and the deposits become non-fundable. The potentially long wait from reservation to delivery could also impact user decisions on whether to ultimately make a purchase, due to potential changes in preferences, competitive developments, and other factors. If we encounter delays in the deliveries of Li ONE or future vehicle models, a significant number of orders may be canceled. As a result, we cannot assure you that orders will not be canceled and will ultimately result in the final purchase, delivery, and sale of the vehicles. Such cancellations could harm our business, brand image, financial condition, results of operations, and prospects.

Our future growth is dependent on the consumer demand for NEVs.

The demand for our vehicles will highly depend upon consumers' demand for and adoption of NEVs, including EREVs and BEVs. The market for NEVs is still rapidly evolving, characterized by rapidly changing technologies, intense competition, evolving government regulation and industry standards, and changing consumer demands and behaviors.

Other factors that may influence the adoption of NEVs include:

- perceptions about vehicle safety in general, in particular safety issues that may be attributed to the use of advanced technology, including BEV and EREV technology, regenerative braking systems, and autonomous driving;
- perceptions about NEV quality, safety, design, performance, and cost, especially if adverse events or accidents occur that are linked to the quality or safety of NEVs, whether or not such vehicles are produced by us or other automakers;
- concerns about electric grid capacity and reliability and the availability of other supporting infrastructure;
- the availability of servicing for NEVs;
- the actual or perceived deterioration of battery capacity over time;
- the environmental consciousness of consumers;
- access to charging stations and cost of charging vehicles;
- the availability of tax and other governmental incentives to purchase and operate NEVs or future regulation requiring increased use of nonpolluting vehicles;

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- improvements in the fuel economy of the ICE vehicles; and
- macroeconomic factors.

Any of the factors described above may change the consumer demand for our vehicles, including causing current or prospective users not to purchase our vehicles. If the market for NEVs, and HPC BEVs in particular, does not develop as we expect or develops more slowly than we expect, our business, financial condition, results of operations, and prospects will be affected.

Our future growth is dependent on the consumer demand for passenger vehicles, the prospects of which are subject to many uncertainties.

Although China is currently one of the world's major automotive markets, we cannot predict how the consumer demand for passenger vehicles will develop in the future. China's passenger vehicle sales volume reached 24.4 million units in 2018. However, since July 2018, China's automotive industry had experienced negative year-over-year growth in sales volume, and new automobile purchases in China had been declining consecutively until April 2020. COVID-19 also had a significant adverse impact on automobile sales in China in the first quarter of 2020. As a result, China's passenger vehicles sales volume decreased by 9.6% to 21.4 million units in 2019, and further decreased by 6.0% to 20.2 million units in 2020.

Amid the market slowdown, certain automakers operating in China have suffered declining performance or financial difficulties. China's automotive industry may be affected by many factors, including general economic conditions in China, the urbanization rate of China's population, the growth of disposable household income, the costs of new automobiles, the trade tensions and other governmental protectionist measures, as well as taxes and incentives related to automobile purchases. If the consumer demand for passenger vehicles in China does not recover as expected, or at all, our business, financial condition and results of operations could be materially and adversely affected.

Changes in PRC government policies that are favorable for NEVs or domestically manufactured vehicles could materially and adversely affect our business, financial condition, results of operations, and prospects.

The growth of our business benefits from PRC government policies at central and local levels that support the development of NEVs and domestically manufactured vehicles. There are uncertainties about governments' support for HPC network, which is essential to our plan to launch HPC BEVs.

The PRC government has been implementing strict vehicle emission standards for ICE vehicles. On December 28, 2018, the PRC State Administration for Market Regulation, or the SAMR and the PRC National Standardization Administration jointly issued the Electric Vehicle Energy Consumption Standards, effective on July 1, 2019, to regulate electric vehicles regarding their energy efficiency. As an EREV, Li ONE is equipped with both an ICE-based

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range extension system and electric motors, and is thus required to comply with both standards. If the electric vehicle energy consumption standards and vehicle emission standards become significantly stricter, we may incur significant costs to obtain advanced energy technology to upgrade our vehicles or design new vehicles if we are able to at all, which could materially and adversely affect our business, financial condition, results of operations, and prospects.

In addition, changes in classification of NEVs and license plate policies have affected, and may continue to affect our business. In certain cities in China, municipal governments impose quotas and lottery or bidding systems to limit the number of license plates issued to ICE vehicles, but exempt NEVs from these restrictions to incentivize the development of the NEV market. Nevertheless, in January 2018, the Beijing municipal government announced that it would only allow BEVs to be considered the NEVs exempt from the license plate restrictions, and EREVs would be treated as ICE vehicles in Beijing for the purposes of obtaining license plates. On December 10, 2018, the NDRC, promulgated the Provisions on Administration of Investment in Automotive Industry, effective on January 10, 2019, which categorize EREVs as electric vehicles, although its impact on the Beijing municipal government's license plate policy remained uncertain. Similarly, in February 2021, the local counterpart of the NDRC and other four governmental authorities in Shanghai announced similar arrangements that only BEVs would be considered the NEVs exempt from the license plate restrictions starting from January 1, 2023. As a result, Li ONEs sold in Beijing and Shanghai may not enjoy the exemptions from the license plate restrictions available to the BEVs. Two of the major markets for Li ONEs are Beijing and Shanghai, whose respective cumulative sales volume accounts for 6.3% and 9.4% of our total cumulative sales volume as of April 30, 2021, according to the CIC Report. It is uncertain whether the arrangements regarding license plate restrictions will reduce the demand for EREVs, and Li ONEs in particular, in Beijing and Shanghai. Although we are currently not aware of any government plan to adopt similar measures in areas other than Beijing and Shanghai, changes in government policies on the classification of NEVs and license plates, at a local or central level, may materially and adversely affect the demand for Li ONE and our future vehicles, which in turn could materially and adversely affect our business, results of operations, financial conditions, and prospects.

Furthermore, changes in government incentives or subsidies to support NEVs could adversely affect our business. EREVs enjoy certain favorable government incentives and subsidies, including exemption from vehicle purchase tax, one-time government subsidies, exemption from license plate restrictions in certain cities, exemption from driving restrictions in certain cities, and preferential utility rates for charging facilities. However, China's central government has begun implementing a phase-out schedule for the subsidies provided for purchasers of certain NEVs, which provided that the amount of subsidies provided for purchasers of certain NEVs in 2019 and 2020 would be reduced by 48% as compared to 2017 levels. In April 2020, the PRC Ministry of Finance and other national regulatory authorities issued a circular to extend the original end date of subsidies for NEV purchasers to the end of 2022 and reduce the amount of subsidies in 10% increments each year commencing from 2020. However, only NEVs with an MSRP of RMB300,000 or less before subsidies are eligible for such subsidies starting from July 2020, and the MSRP of Li ONE is higher than the threshold.

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Li ONE used to be eligible for a government subsidy of RMB10,000 per individual buyer before April 2020, which already had been effectively reflected in the then MSRP of RMB328,000 (approximately US\$50,000). Such government subsidy was reduced to RMB8,500 per individual buyer from April to July 2020. After July 2020, Li ONE is no longer eligible for such government subsidy. The MSRP of the Li ONE had remained to be RMB328,000 (approximately US\$50,000), regardless of whether Li ONE is eligible for the government subsidy, until the release of the 2021 Li ONE on May 25, 2021. Therefore, the phase-out and cease of the government subsidies have resulted in a decrease of our revenues per vehicle.

Moreover, there is no guarantee that we will be able to successfully commercialize or otherwise offer vehicles that meet this subsidy threshold. We cannot assure you that any further changes would be favorable to our business. Furthermore, any reduction, elimination or discriminatory application of government subsidies and economic incentives because of policy changes, the reduced need for such subsidies and incentives due to the perceived success of NEVs, fiscal tightening or other factors may affect government incentives or subsidies and result in the diminished competitiveness of the NEV industry generally.

Our vehicles sales are also impacted by government policies including tariffs on imported cars. According to an announcement by the PRC government, the tariff on imported passenger vehicles (other than those originating in the United States of America) was reduced to 15% starting from July 1, 2018. As a result, pricing advantage of domestically manufactured vehicles could be diminished. Pursuant to the Special Administrative Measures for Market Access of Foreign Investment (2020), or the 2020 Negative List, which is jointly promulgated by the NDRC and the Ministry of Commerce and became effective on July 23, 2020, there is no limit on foreign ownership of automakers for NEVs. In addition, the limits on foreign ownership of automakers for ICE passenger vehicles would be lifted by 2022. As a result, foreign NEV competitors and in the future foreign ICE automakers could build wholly-owned facilities in China without the need for a domestic joint venture partner. For example, Tesla has completed its construction of a factory in Shanghai without a joint venture partner and has begun operations. These changes could intensify market competition and reduce our pricing advantage, which in turn could materially and adversely affect our business, results of operations, financial conditions, and prospects.

We may be unable to adequately control the costs associated with our operations.

We have devoted significant capital to developing and growing our business, including developing and manufacturing our first model, Li ONE, purchasing land and equipment, constructing our manufacturing facilities, procuring required raw materials, and building our sales and servicing infrastructure. We expect to further incur significant costs that will impact our profitability, including research and development expenses as we roll out new models and improve existing models, expenditures in the expansion of our manufacturing capacities, additional operating costs and expenses for production ramp-up, raw material and auto parts procurement costs, expenditures to roll out our HPC network, and selling and distribution expenses as we build our brand and market our vehicles. In particular, the prices for raw

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materials such as aluminum and steel fluctuate upon factors beyond our control, and could adversely affect our business and results of operations. Substantial increases in the prices for our raw materials such as aluminum and steel would increase our cost of revenue and our operating expenses, and could reduce our margins. Furthermore, currency fluctuations, tariffs or shortages in petroleum and other economic or political conditions may result in significant increases in freight charges and raw material costs. In addition, we may lose control over the increase of costs in connection with our services including after-sale services. Our ability to become profitable in the future will not only depend on our ability to successfully market our vehicles and other products and services but also to control our costs. If we are unable to design, develop, manufacture, market, sell, and service our vehicles and provide services in a cost-efficient manner, our margins, profitability, and prospects would be materially and adversely affected.

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

Since October 2020, the supply of semiconductor chips used for automotive manufacturing has been subject to a global shortage following the disruption to semiconductor manufacturers due to the COVID-19 pandemic and an increase in global demand for personal computers for work-from-home economies. Although as of the Latest Practicable Date, we had not experienced any disruption in the manufacture of our vehicles due to a shortage in the supply of chips, we cannot assure you that we will be able to continue to obtain sufficient amount of chips or other semiconductor components at a reasonable cost. In addition, similar to other components, many of the semiconductor components used in our vehicles are purchased by us from a single source although we reserve the flexibility to obtain the components from multiple sources. If the suppliers for the semiconductor components become unable to meet our demand on acceptable terms, or at all, we may be required to switch to other suppliers, which could be time consuming and costly. If we fail to find alternative suppliers in time, or at all, our production and deliveries could be materially disrupted, which may materially and adversely affect our business, results of operations, and financial condition.

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

Our vehicles currently make use of lithium-ion battery cells, which we purchase from third-party suppliers. The prices for the battery cells fluctuate, and their available supply may be unstable, depending on market conditions and global demand for the battery cells and the materials used in the battery cells, such as lithium, nickel, cobalt, and manganese. There is a looming shortage of battery packs since mid-2020 as a result of an increase in global demand due to increased production of NEVs, rising demand for raw material of battery cells, and the disruption in the supply chain due to the COVID-19 pandemic. Although as of the Latest Practicable Date, we had not experienced any disruption in the manufacture of our vehicles due to a shortage in the supply of battery packs, we cannot assure you that we will be able to continue to obtain sufficient amount of battery packs at a reasonable cost. Our business is dependent on the continued supply of battery packs used in our vehicles. We purchase battery

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pack from CATL, with which we have developed close partnership for battery packs. If CATL becomes unable to meet our demand on acceptable terms, or at all, we may be required to switch to alternative suppliers. Any disruption in the supply of battery packs from CATL could disrupt production of our vehicles until such time as we find an alternative supplier. There can be no assurance that we would be able to successfully retain alternative suppliers on a timely basis, on acceptable terms or at all. If we fail to find alternative suppliers in time, our production and deliveries could be materially disrupted, which may materially and adversely affect our business, results of operations, and financial condition.

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

We are exposed to inventory risks that may adversely affect our financial condition, results of operations, and prospects as a result of increased competition, seasonality, new model launches, rapid changes in vehicle life cycles and pricing, defective vehicles, changes in consumer demand and consumer spending patterns, and other factors. In order to operate our business effectively and meet our users' demands and expectations, we must maintain a certain level of inventory to avoid overstocking or understocking issues and ensure timely delivery. We determine our level of inventory based on our experience and assessment of user demands and number of orders from users.

However, forecasts are inherently uncertain, and the demand for our vehicles may change between the order date and the projected delivery date. If we fail to accurately forecast the demand, we may experience inventory obsolescence and inventory shortage risk. Inventory levels in excess of demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which could adversely affect our profitability. We did not recognize inventory write-downs in 2018, 2019, and 2020 and for the three months ended March 31, 2020 and 2021. In addition, if we underestimate the demand for our vehicles, we may not be able to manufacture a sufficient number of vehicles to meet such unanticipated demand, which could result in delays in the delivery of our vehicles and harm our reputation.

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

Our industry and its technology are rapidly evolving and may be subject to unforeseen changes. Breakthroughs in other NEV technologies or improvements in the ICE technologies may materially and adversely affect the demand for our vehicles.

We operate in the China automotive market, including the rapidly evolving NEV market, which may not become what we currently anticipate. We may be unable to keep up with changes in China's NEV technology and, as a result, our competitiveness may suffer. Our research and development efforts may not be sufficient to adapt to changes in the NEV technology. As technologies change, we plan to upgrade or adapt our vehicles and introduce new models in order to provide vehicles with the latest technology, which could involve

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substantial costs and lower our return on investment for existing vehicles. We cannot assure you that we will be able to compete effectively with other NEVs and integrate the latest technology into our vehicles against the backdrop of our rapidly evolving industry. Even if we are able to keep pace with changes in technology and develop new models, our prior models could become obsolete more quickly than expected, potentially reducing our return on investment.

Developments in new energy technology, such as advanced diesel, ethanol, fuel cells, or compressed natural gas, or improvements in the fuel economy of ICEs may materially and adversely affect our business and prospects in ways that we do not currently anticipate. Any failure by us to successfully react to changes in existing technology could materially harm our competitive position and may materially and adversely affect our business, financial condition, and results of operations.

If we fail to manage our growth effectively, we may not be able to market and sell our vehicles successfully.

We have expanded our operations, and as we ramp up our production, significant expansion will be required, especially in connection with potential increases in sales, providing our users with high-quality servicing, expansion of our retail, delivery, and servicing center network, and managing different models of vehicles. Our future operating results depend to a large extent on our ability to manage this expansion and growth successfully. Risks that we face in undertaking this expansion include, among others:

- managing our supply chain to support fast business growth;
- managing a larger organization with a greater number of employees in different divisions;
- controlling expenses and investments in anticipation of expanded operations;
- establishing or expanding design, manufacturing, sales, and service facilities;
- implementing and enhancing administrative infrastructure, systems, and processes; and
- addressing new markets and potentially unforeseen challenges as they arise.

Any failure to manage our growth effectively could materially and adversely affect our business, financial condition, results of operations, and prospects.

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

Our success depends substantially on the continued efforts of our executive officers and key employees with expertise in various areas. If one or more of our executive officers or key employees were unable or unwilling to continue their services with us, we might not be able to replace them easily, in a timely manner, or at all. As we build our brand and become more well-known, the risk that competitors or other companies may poach our talent increases. Our industry is characterized by high demand and intense competition for talent, in particular with respect to qualified talent in the areas of smart vehicle and autonomous driving technologies, and therefore we cannot assure you that we will be able to attract or retain qualified staff or other highly skilled employees. In addition, because our EREVs are based on a different technology platform than traditional ICE vehicles, individuals with sufficient training in such vehicles may not be available to hire, and we will need to expend significant time and expense training the employees we hire. We also require sufficient talent in areas such as software development. Furthermore, as our company is relatively young, our ability to train and integrate new employees into our operations may not meet the growing demands of our business, which may materially and adversely affect our ability to grow our business and our results of operations.

If any of our executive officers and key employees terminates his or her services with us, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train, and retain qualified personnel. We have not obtained any “key person” insurance on our key personnel. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose users, know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement and a non-compete agreement with us. However, if any dispute arises between our executive officers or key employees and us, the non-competition provisions contained in their non-compete agreements may not be enforceable, especially in China, where these executive officers reside, on the ground that we have not provided adequate compensation to them for their non-competition obligations, which is required under relevant PRC laws.

Our services, including those provided through third parties, may not be generally accepted by our users. If we are unable to provide or arrange adequate services for our users, our business and reputation may be materially and adversely affected.

We cannot assure you that our services or our efforts to engage with our users using both our online and offline channels, will be successful, which could affect our revenues as well as our user satisfaction and marketing. Moreover, we are unable to ensure the availability or quality of services provided by third parties, such as road assistance, vehicle logistics, and automobile financing and insurance. If any of the services provided by third parties becomes unavailable or inadequate, our users’ experience may be adversely affected, which in turn may materially and adversely affect our business and reputation.

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While our vehicles can be serviced at our delivery and servicing centers, some of the services will be carried out through authorized body and paint shops. Both our own delivery and servicing centers and authorized body and paint shops have limited experience in servicing EREVs. We cannot assure you that our service arrangements will adequately address the service requirements of our users to their satisfaction, or that we and our authorized body and paint shops will have sufficient resources to meet these service requirements in a timely manner as the volume of vehicles we deliver increases.

In addition, if we are unable to roll out and establish a widespread service network through a combination of our delivery and servicing centers and authorized body and painting shops, user satisfaction could be adversely affected, which in turn could materially and adversely affect our sales, results of operations, and prospects.

We may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.

We may become subject to product liability claims, which could harm our business, financial condition, results of operations, and prospects. The automotive industry experiences significant product liability claims and we face inherent risk of exposure to claims in the event our vehicles do not perform as expected or malfunction resulting in property damage, personal injury, or death. Our risks in this area are particularly pronounced given we have limited field experience of our vehicles. A successful product liability claim against us could require us to pay substantial monetary compensation. Moreover, a product liability claim could generate substantial negative publicity about our vehicles and business and inhibit or prevent commercialization of our future vehicles, which would materially and adversely affect our brand, business, prospects, and results of operations. Any insurance coverage might not be sufficient to cover all potential product liability claims. Any lawsuit seeking significant monetary damages may materially and adversely affect our reputation, business, financial condition, and results of operations.

We may be compelled to undertake product recalls or other actions, which could adversely affect our brand image, financial condition, results of operations, and growth prospects.

We may be subject to adverse publicity, damage to our brand, and costs for recalls of our vehicles. Effective on November 7, 2020, we voluntarily recalled 10,469 Li ONEs produced on or before June 1, 2020 to replace, free of charge, the control arm ball joint of the front suspension on these Li ONEs in accordance with the requirements by the SAMR. Li ONEs produced after June 1, 2020 are already equipped with an upgraded version of the control arm ball joint of the front suspension. As of the date of this prospectus, we completed over 98.5% of all the replacements and are not aware of any material accidents due to any defects in the control arm ball joint of the front suspension being replaced.

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In the future, we may at various times, voluntarily or involuntarily, initiate a recall if any of our vehicles, including any systems or parts sourced from our suppliers, prove to be defective or noncompliant with applicable laws and regulations. Such recalls, whether voluntary or involuntary, could involve significant expense and could adversely affect our brand image in our target markets, as well as our business, financial condition, results of operations, and growth prospects.

Our vehicles are subject to motor vehicle standards and the failure to satisfy such mandated safety standards would materially and adversely affect our business and results of operations.

All vehicles sold must comply with various standards of the market where the vehicles are sold. Our vehicles must meet or exceed all mandated safety standards in China. Rigorous testing and the use of approved materials and equipment are among the requirements for achieving these standards. Vehicles must pass various tests and undergo a certification process and be affixed with the China Compulsory Certification before receiving delivery from the factory, being sold, or being used in any commercial activity, and such certification is also subject to periodic renewal. Furthermore, the PRC government carries out supervision and scheduled or unscheduled inspection of certified vehicles on a regular basis. In the event that our certification fails to be renewed upon expiry, a certified vehicle has a defect resulting in quality or safety accidents, or consistent failure of certified vehicles to comply with certification requirements is discovered during follow-up inspections, the certification may be suspended or even revoked. With effect from the date of revocation or during suspension of the certification, any vehicle that fails to satisfy the requirements for certification may not continue to be delivered, sold, imported, or used in any commercial activity. Failure by us to satisfy motor vehicle standards would materially and adversely affect our business and results of operations.

Our vehicles currently make use of lithium-ion battery cells, which have been observed to catch fire or vent smoke and flame.

The battery packs that we produce make use of lithium-ion cells, which we purchase from third-party suppliers. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion cells. We have implemented a battery management system that automatically monitors temperature, power output, and other status of the battery pack, including a thermal management system that keeps the temperature of the battery pack within an ideal range. However, our vehicles or their battery packs may still experience failure, which could subject us to lawsuits, product recalls, or redesign efforts, all of which would be time consuming and expensive. In addition, negative public perceptions regarding the suitability of lithium-ion cells for automotive use or any future incident involving lithium-ion cells such as a vehicle or other fire, even if not involving our vehicles, could seriously harm our business.

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In addition, we store lithium-ion cells at our facilities. Any mishandling of battery cells may cause disruption to the operation of our facilities. While we have implemented safety procedures related to the handling of the cells, a safety issue or fire related to the cells could disrupt our operations. Such damage or injury could lead to adverse publicity and potentially a safety recall. Moreover, any failure of a competitor's electric vehicle or energy storage product may cause indirect adverse publicity for us and our products. Such adverse publicity could negatively affect our brand and harm our business, financial condition, results of operations, and prospects.

We are subject to risks associated with autonomous driving technology.

Our vehicles are currently equipped with Level 2 autonomous driving features realized through ADAS. We rely on third-party suppliers for certain technologies and components used in our ADAS, and any defects of or quality issues with those technologies and components could result in actual or perceived quality issues with our vehicles. We plan to enhance and expand our vehicles' level of autonomous driving capabilities through ongoing research and development. Autonomous driving as an evolving and complex technology is subject to risks, and from time to time there have been accidents associated with such technology. The safety of such technology depends in part on user interaction and users may not be accustomed to using such technology. To the extent accidents associated with our future autonomous driving technology occur, we could be subject to liability, government scrutiny, and further regulation. See "Regulations—Regulations on Autonomous Driving." Any of the foregoing could materially and adversely affect our brand image, financial condition, results of operations, and growth prospects.

Any unauthorized control or manipulation of our vehicle systems could result in loss of confidence in us and our vehicles and harm our business.

Our vehicles contain complex information technology systems. For example, our vehicles are designed with built-in data connectivity to accept and install periodic remote updates from us to improve or update the functionality of our vehicles. We have designed, implemented and tested security measures intended to prevent unauthorized access to our information technology networks, our vehicles, and their systems. However, hackers may attempt in the future, to gain unauthorized access to modify, alter, and use our networks, vehicles, and systems to gain control of, or to change, our vehicles' functionality, user interface, and performance characteristics, or to gain access to data stored in or generated by the vehicles. Vulnerabilities could be identified in the future and our remediation efforts may not be successful. Any unauthorized access to or control of our vehicles or their systems or any loss of data could result in legal claims or proceedings against us. In addition, regardless of their veracity, reports of unauthorized access to our vehicles, their systems, or data, as well as other factors that may result in the perception that our vehicles, their systems, or data are capable of being "hacked," could negatively affect our brand and harm our business, financial condition, results of operations, and prospects.

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Our distribution model is different from the currently predominant distribution model for automakers, and its long-term viability is unproven.

Our distribution model is not common in the automotive industry today, particularly in China. We own and operate our distribution network through which we conduct vehicle sales directly to users rather than through dealerships. This model of vehicle distribution is relatively new and its long-term effectiveness is unproven, especially in China. It thus subjects us to substantial risks as it requires, in the aggregate, significant expenditures and provides for slower expansion of our distribution and sales systems than the traditional dealership system. For example, we will not be able to utilize long established sales channels developed through a dealership system to increase our sales volume. Moreover, we will be competing with automakers with well established distribution channels. Our expansion of our network of retail stores, galleries, and delivery and servicing centers may not fully meet users' expectations. Our success will depend in large part on our ability to effectively develop our own sales channels and marketing strategies. Implementing our business model is subject to numerous significant challenges, including obtaining permits and approvals from government authorities, and we may not be successful in addressing these challenges.

Our results of operations may vary significantly from period to period due to the seasonality of our business and fluctuations in our operating costs.

Our results of operations may vary significantly from period to period due to many factors, including seasonal factors that may affect the demand for our vehicles. The sales volume of passenger vehicles typically declines over January and February, particularly around the Chinese New Year, gradually climbs over spring and summer, and typically culminates in the fourth quarter of the calendar year. Our limited operating history makes it difficult for us to judge the exact nature or extent of the seasonality of our business. Also, any unusually severe weather conditions in certain regions may impact demand for our vehicles. Our results of operations could also suffer if we do not achieve revenue consistent with our expectations for this seasonal demand because many of our expenses are based on anticipated levels of annual revenue.

We also expect our period-to-period results of operations to vary based on our operating costs, which we anticipate will increase significantly in future periods as we, among other things, design, develop, and manufacture our EREVs and new models, build and equip new manufacturing facilities to produce such components, open new retail stores, galleries, and delivery centers, increase our sales and marketing activities, and increase our general and administrative functions to support our growing operations.

As a result of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our results of operations may not meet expectations of equity research analysts or investors. If this occurs, the trading price of our Class A ordinary shares or ADSs could fall substantially either suddenly or over time.

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The expansion of our existing Changzhou manufacturing facility may be subject to delays, disruptions, cost overruns, or may not produce expected benefits.

We plan to expand our Changzhou manufacturing facility by 2022 to prepare for further production ramp-up of Li ONE and future models. The expansion could experience delays or other difficulties, and will require significant capital. We may encounter quality, process, or other issues when changing our single-shift production arrangement to a two-shift production arrangement. Our current lease for the manufacturing facility will expire in December 2022. Although we have a contractual option to purchase the property underlying that manufacturing facility at the construction cost before the end of the lease or re-negotiate the lease if we fail to purchase the property, we cannot assure you that our operations or expansion of the Changzhou manufacturing facility will not be disrupted. Any failure to complete the expansion on schedule and within budget could adversely affect our financial condition, production capacity, and results of operations. Moreover, we could encounter similar or additional risks if we were to establish new manufacturing facilities in addition to the Changzhou one.

Under PRC laws, construction projects are subject to broad and strict government supervision and approval procedures, including but not limited to project approvals and filings, construction land and project planning approvals, disease control approvals, environment protection approvals, the pollution discharge permits, drainage license, work safety approvals, fire protection approvals, and the completion of inspection and acceptance by relevant authorities. Some of the construction projects carried out by us are undergoing necessary approval procedures as required by law, including the expansion projects of our Changzhou manufacturing facility, which requires the approval of the municipal government. As a result, the relevant entities operating such construction projects may be subject to administrative uncertainty, fines, or the suspension of use of such projects. Any of the foregoing could materially and adversely affect our business operations.

Our business plans require a significant amount of capital. In addition, our future capital needs may require us to issue additional equity or debt securities that may dilute our shareholders or introduce covenants that may restrict our operations or our ability to pay dividends.

We will need significant capital to, among other things, conduct research and development, expand our production capacity, and roll out our retail stores, galleries, and delivery and servicing centers. As we ramp up our production capacity and operations we may also require significant capital to maintain our property, plant, and equipment and such costs may be greater than what we currently anticipate. We expect that our level of capital expenditures will be significantly affected by consumer demand for our products and services. The fact that we have a limited operating history means we have limited historical data on the demand for our products and services. As a result, our future capital requirements may be uncertain and actual capital requirements may be different from what we currently anticipate. We may seek equity or debt financing to finance a portion of our capital expenditures. Such financing might not be available to us in a timely manner or on terms that are acceptable, or at all. If we cannot obtain sufficient capital on acceptable terms, our business, financial condition, and prospects may be materially and adversely affected.

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Our ability to obtain the necessary financing to carry out our business plan is subject to a number of factors, including general market conditions and investor acceptance of our business plan. These factors may make the timing, amount, terms and conditions of such financing unattractive or unavailable to us. If we are unable to raise sufficient funds, we will have to significantly reduce our spending, delay or cancel our planned activities, or substantially change our corporate structure. As of December 31, 2018 and 2019, we had shareholders' deficit of RMB2.4 billion and RMB5.7 billion, respectively. As of December 31, 2020 and March 31, 2021, we had shareholders' equity of RMB29.8 billion (US\$4.5 billion) and RMB29.7 billion (US\$4.5 billion), respectively. We may have shareholders' deficit balance in the future, which may limit our ability to obtain financing and materially and adversely affect our liquidity and financial condition. We might not be able to obtain any funding or service any of the debts we incurred, and we might not have sufficient resources to conduct our business as projected, both of which could mean that we would be forced to curtail or discontinue our operations.

In addition, our future capital needs and other business reasons could require us to issue additional equity or debt securities or obtain a credit facility. The issuance of additional equity or equity-linked securities could dilute our shareholders and our memorandum and articles of association do not contain any anti-dilution provision. The incurrence of indebtedness would result in an increase in debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

We retain certain information about our users, which may subject us to user concerns or various privacy and consumer protection laws.

We use our vehicles' electronic systems to log, with necessary permission, certain information about each vehicle's use in order to aid us in vehicle diagnostics and repair and maintenance, as well as to help us customize and optimize the driving and riding experiences. Our users may object to the use of this data, which may harm our business. Possession and use of our users' driving behavior and data in conducting our business may subject us to legislative and regulatory burdens in China and other jurisdictions that could require notification of data breach, restrict our use of such information, and hinder our ability to acquire new users or market to existing users. If users allege that we have improperly released or disclosed their sensitive personal information, we could face legal claims and reputational harm. We may incur significant expenses to comply with privacy, consumer protection, and security standards and protocols imposed by laws, regulations, industry standards, or contractual obligations. If third parties improperly obtain and use sensitive personal information of our users, we may be required to expend significant resources to resolve these problems.

Our business is subject to various evolving PRC laws and regulations regarding data privacy and cybersecurity. Failure of cybersecurity and data privacy concerns could subject us to penalties, damage our reputation and brand, and harm our business and results of operations.

We face significant challenges with respect to cybersecurity and data privacy, including the storage, transmission, and sharing of confidential information. We transmit and store confidential and private information of our users, such as personal information, including names, user accounts, passwords, and payment or transaction-related information.

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We are subject to various regulatory requirements relating to cybersecurity and data privacy, including, without limitation the PRC Cybersecurity Law. See “Regulations—Regulations on Internet Information Security and Privacy Protection.” We are required by these laws and regulations to ensure the confidentiality, integrity, availability, and authenticity of the information of our users and distributors, which is also essential to maintaining their confidence in our vehicles and services. We have adopted strict information security policies and deployed advanced measures to implement the policies, including, among others, advanced encryption technologies. However, advances in technology, an increased level of sophistication and diversity of our products and services, an increased level of expertise of hackers, new discoveries in the field of cryptography or others can still result in a compromise or breach of our websites, the Li Auto App, or our vehicles’ electronic systems. If we are unable to protect our systems, and hence the information stored in our systems, from unauthorized access, use, disclosure, disruption, modification, or destruction, such problems or security breaches could cause a loss, give rise to our liabilities to the owners of confidential information, or subject us to fines and other penalties. In addition, complying with various laws and regulations could cause us to incur substantial costs or require us to change our business practices, including our data practices, in a manner adverse to our business.

In addition, regulatory requirements on cybersecurity and data privacy are constantly evolving and can be subject to varying interpretations or significant changes, resulting in uncertainties about the scope of our responsibilities in that regard. For example, the Cyberspace Administration of China issued the Several Provisions on Automobile Data Security Management (Draft for Comments) on May 12, 2021, which further elaborates the principles and requirements for the protection of personal information and important data in the automotive industry, and defines any enterprise or institution engaging in the automobile design, manufacture, and service as a relevant operator. Such operator is required to process personal information or important data in accordance with applicable laws during the automobile design, manufacture, sales, operation, maintenance, and management. On June 10, 2021, the Standing Committee of the National People’s Congress promulgated the PRC Data Security Law, which will take effect in September 2021. The Data Security Law provides for a security review procedure for the data activities that may affect national security. Furthermore, Measures for Cybersecurity Review, which became effective on June 1, 2020, set forth the cybersecurity review mechanism for critical information infrastructure operators, and provided that critical information infrastructure operators who intend to purchase internet products and services that affect or may affect national security shall be subject to a cybersecurity review. On July 10, 2021, the Cyberspace Administration of China published the Measures for Cybersecurity Review (Revised Draft for Comments), which further restates and expands the applicable scope of the cybersecurity review. Pursuant to the draft measures, critical information infrastructure operators that intend to purchase internet products and services and data processing operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review. The draft measures further stipulate that if an operator has personal information of over one million users and intends to be listed in a foreign country, it must be subject to the cybersecurity review. See “Regulations—Regulations on Internet Information Security and Privacy Protection.” As advised by our PRC Legal Advisor, the draft measures were released for public comment only,

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and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. The draft measures remain unclear on whether the relevant requirements will be applicable to companies that intend to be listed in Hong Kong or companies that have been listed in the United States and intend to be listed in Hong Kong, such as us. Furthermore, the exact scope of “critical information infrastructure operators” under the draft measures and the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. Therefore, it is uncertain whether we would be deemed as a critical information infrastructure operator under PRC law. It also remains uncertain whether the future regulatory changes would impose additional restrictions on companies like us. We cannot predict the impact of the draft measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the enacted version of the draft measures mandates clearance of cybersecurity review and other specific actions to be completed by companies like us, we face uncertainties as to whether such clearance can be timely obtained, or at all. If we are not able to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, among other sanctions, which could materially and adversely affect our business and results of operations.

Our warranty reserves may be insufficient to cover future warranty claims, which could adversely affect our financial condition and results of operations.

We provide a five-year or 100,000-kilometer limited warranty for new vehicles, and an eight-year or 120,000-kilometer limited warranty for battery packs, electric motors, and electric motor controllers. Currently, we also offer each initial owner extended lifetime warranty, subject to certain conditions. Our warranty program is similar to other automakers’ warranty programs and is intended to cover all parts and labor to repair defects in material or workmanship in the body, chassis, suspension, interior, electric systems, battery, powertrain, and brake system. It also covers free road assistance under the warranty coverage. We plan to record and adjust warranty reserves based on changes in estimated costs and actual warranty costs. However, because we only started the volume production of Li ONE in November 2019, our experience with warranty claims regarding our vehicles or with estimating warranty reserves is limited. We cannot assure you that our warranty reserves will be sufficient to cover future warranty claims. We could, in the future, become subject to a significant and unexpected warranty claims, resulting in significant expenses, which would in turn materially and adversely affect our financial condition, results of operations, and prospects.

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If our vehicle owners modify our vehicles regardless of whether third-party aftermarket products are used, the vehicle may not operate properly, which may create negative publicity and could harm our business.

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

We have granted, and may continue to grant options and other types of awards under our share incentive plan, which may result in increased share-based compensation expenses.

We adopted a share incentive plan in July 2019, or the 2019 Plan, for the purpose of granting share-based compensation awards to employees, directors, and consultants to incentivize their performance and align their interests with ours. We further adopted the 2020 Share Incentive Plan, or the 2020 Plan, in July 2020 and the 2021 Share Incentive Plan, or the 2021 Plan, in March 2021, in each case for the same purpose. Under the 2019 Plan, 2020 Plan, and 2021 Plan, we are authorized to grant options and other types of awards. The maximum number of Class A ordinary shares that may be issued pursuant to all awards Plan is 141,083,452. The maximum number of Class A ordinary shares that may be issued pursuant to all awards under the 2020 Plan is 165,696,625. The maximum number of Class B ordinary shares that may be issued pursuant to all awards under the 2021 Plan is 108,557,400, all of which had been granted as CEO Award Shares and will be converted to Class A ordinary shares on a one-to-one basis with effect immediately upon the Listing. See “Statutory and General Information—Share Incentive Plans” in Appendix IV to this document. As of the Latest Practicable Date, awards to purchase an aggregate amount of 55,393,578 Class A ordinary shares under the 2019 Plan and awards to purchase an aggregate amount of 35,792,086 Class A ordinary shares under the 2020 Plan had been granted and were outstanding, excluding awards that were forfeited or canceled after the relevant grant dates. On March 8, 2021, we granted options to purchase 108,557,400 Class B ordinary shares under our 2021 Share Incentive Plan to Mr. Li, our chairman and chief executive officer, with certain performance-based vesting conditions. On May 5, 2021, the Board approved to replace such options with the same amount of Class B ordinary shares under the same plan, all of which have become vested upon grant on May 5, 2021, subject to certain undertakings of restrictions by Mr. Li based on certain performance conditions substantially similar to the vesting conditions of the options being replaced. These Class B ordinary shares will be converted to Class A ordinary shares on a one-to-one basis with effect immediately upon the Listing. See “Statutory and General Information—Share Incentive Plans—The 2021 Plan” in Appendix IV to this document.

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We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

Furthermore, perspective candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Thus, our ability to attract or retain highly skilled employees may be adversely affected by declines in the perceived value of our equity or equity awards. Furthermore, there are no assurances that the number of shares reserved for issuance under our share incentive plans will be sufficient to grant equity awards adequate to recruit new employees and to compensate existing employees.

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

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

- cease selling, incorporating certain components into, or using vehicles or offering goods or services that incorporate or use the challenged intellectual property;
- pay substantial damages;
- seek a license from the holder of the infringed intellectual property right, which may not be available on reasonable terms or at all;
- redesign our vehicles or other goods or services; or
- establish and maintain alternative branding for our products and services.

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

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

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

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

Implementation and enforcement of PRC laws relating to intellectual property have historically been deficient and ineffective. Accordingly, protection of intellectual property rights in China may not be as effective as in Hong Kong, the United States or other developed countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive. We rely on a combination of patent, copyright, trademark, and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, third parties may attempt to copy or otherwise obtain and use our intellectual property or seek court declarations that they do not infringe upon our intellectual property rights. Monitoring unauthorized use of our intellectual property is difficult and costly, and we cannot assure you that the steps we have taken or will take will prevent misappropriation of our intellectual property. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

As our patents may expire and may not be extended, our patent applications may not be granted, and our patent rights may be contested, circumvented, invalidated, or limited in scope, our patent rights may not protect us effectively. In particular, we may not be able to prevent others from developing or exploiting competing technologies, which could materially and adversely affect our business, financial condition, and results of operations.

As of March 31, 2021, we had 893 issued patents and 749 pending patent applications in China. We cannot assure you that all our pending patent applications will result in issued patents. Even if our patent applications succeed and we are issued patents accordingly, it is still uncertain whether these patents will be contested, circumvented, or invalidated in the future. In addition, the rights granted under any issued patents may not provide us with meaningful protection or competitive advantages. The claims under any patents may not be broad enough to prevent others from developing technologies that are similar or that achieve results similar to ours. It is also possible that the intellectual property rights of others could bar us from licensing and exploiting our patents. Numerous patents and pending patent applications owned by others exist in the fields where we have developed and are developing our technology. These patents and patent applications might have priority over our patent applications and could subject our patent applications to invalidation. Finally, in addition to those who may claim priority, any of our existing patents or pending patent applications may also be challenged by others on the basis that they are otherwise invalid or unenforceable.

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Pandemics and epidemics, natural disasters, terrorist activities, political unrest, and other outbreaks could disrupt our production, delivery, and operations, which could materially and adversely affect our business, financial condition, and results of operations.

Global pandemics, epidemics in China or elsewhere in the world, or fear of spread of contagious diseases, such as Ebola virus disease (EVD), coronavirus disease 2019 (COVID-19), Middle East respiratory syndrome (MERS), severe acute respiratory syndrome (SARS), H1N1 flu, H7N9 flu, and avian flu, as well as hurricanes, earthquakes, tsunamis, or other natural disasters could disrupt our business operations, reduce or restrict our supply of materials and services, incur significant costs to protect our employees and facilities, or result in regional or global economic distress, which may materially and adversely affect our business, financial condition, and results of operations. Actual or threatened war, terrorist activities, political unrest, civil strife, and other geopolitical uncertainty could have a similar adverse effect on our business, financial condition, and results of operations. Any one or more of these events may impede our production and delivery efforts and adversely affect our sales results, or even for a prolonged period of time, which could materially and adversely affect our business, financial condition, and results of operations.

The COVID-19 pandemic adversely affected many aspects of our business, including production, supply chain, and sales and delivery. Our Changzhou manufacturing facility underwent temporary closure in February 2020 as part of China's nationwide efforts to contain the spread of the novel coronavirus. Even though our business is currently operational, our production capacity and operational efficiency were adversely affected by the COVID-19 pandemic in the first half of 2020 due to insufficient workforce in production, sales, and delivery as a result of temporary travel restrictions in China and the necessity to comply with disease control protocols in our business establishments and Changzhou manufacturing facility. Our suppliers' abilities to timely deliver raw materials, parts and components, or other services were also adversely affected for similar reasons, especially those located in critical regions such as Hubei Province, China. The global spread of COVID-19 may also affect our overseas suppliers. As a result of varying levels of travel and other restrictions for public health concerns in various regions of China, we also temporarily postponed the delivery of Li ONE to our users. Due to concerns or fear of spread of COVID-19, consumers were initially reluctant to visit in person our retail stores or delivery and servicing centers for potential new car purchases. Our consolidated results of operations for the first half of 2020 were adversely affected. In addition, the COVID-19 pandemic temporarily adversely affected the expansion of our Changzhou manufacturing facility and our retail stores and delivery and servicing centers in China, which had adversely affected our sales and delivery growth in the first half of 2020. COVID-19 has had a global economic impact on the financial markets. The global spread of COVID-19 pandemic may result in global economic distress, and the extent to which it may affect our results of operations will depend on future developments, which are highly uncertain and cannot be predicted. Relaxation of restrictions on economic and social activities may also lead to new cases which may lead to re-imposed restrictions. We cannot assure you that the COVID-19 pandemic can be eliminated or contained in the near future, or at all, or a similar outbreak will not occur again. A second wave of COVID-19 or a similar pandemic could materially and adversely affect our business, financial condition, and results of operations.

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We are also vulnerable to natural disasters and other calamities. Although we have servers that are hosted in an offsite location, our backup system does not capture data on a real-time basis and we may be unable to recover certain data in the event of a server failure. We cannot assure you that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks, or similar events. Any of the foregoing events may give rise to interruptions, damage to our property, delays in production, breakdowns, system failures, technology platform failures, or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our business, financial condition, and results of operations.

We might not be able to fulfil our obligation in respect of deferred revenue, which might have impact on our cash or liquidity position.

Our recognition of deferred revenue is subject to future performance obligations. Our deferred revenue mainly includes the transaction price allocated to the performance obligations that are unsatisfied, or partially satisfied, which mainly arises from the undelivered vehicles, charging stalls, vehicle internet connection services, FOTA upgrades, and extended lifetime warranties for initial owners, as well as customer loyalty points offered in connection with the purchase of Li ONE. We may have multiple performance obligations identified in one vehicle sales contract and the purchase price for sales of our vehicles and all embedded products and services to a user for which we have received consideration, or an amount of consideration is due, from the user, is recorded as deferred revenue. Due to potential future changes in user preferences and the need for us to satisfactorily perform product support and other services, deferred revenue at any particular date may not be representative of actual revenue for any current or future period. Any failure to fulfil the obligations in respect of deferred revenue may have an adverse impact on our results of operations and liquidity.

Fluctuation of fair value change of short-term and long-term investments that we made may adversely affect our financial condition, results of operations, and prospects.

During the Track Record Period, our short-term investments primarily consisted of investments in financial instruments with variable interest rates and maturity dates within one year, and our long-term investments primarily consisted of investments in publicly traded companies and privately-held companies. The methodologies that we use to assess the fair value of the short-term and long-term investments involve a significant degree of management judgment and are inherently uncertain. In addition, we are exposed to credit risks in relation to our short-term and long-term investments, which may adversely affect the net changes in their fair value. We cannot assure you that market conditions will create fair value gains on our short-term and long-term investments or we will not incur any fair value losses on our short-term and long-term investments in the future. If we incur such fair value losses, our financial condition, results of operations, and prospects may be adversely affected.

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We have limited insurance coverage, which could expose us to significant costs and business disruption.

We have limited liability insurance coverage for our products and business operations. A successful liability claim against us, regardless of whether due to injuries suffered by our users could materially and adversely affect our financial condition, results of operations, and reputation. In addition, we do not have any business disruption insurance. Any business disruption event could result in substantial cost to us and diversion of our resources.

We are or may be subject to risks associated with strategic alliances or acquisitions.

We have entered into and may in the future enter into strategic alliances, including joint ventures or minority equity investments, with various third parties to further our business purpose from time to time. These alliances could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by third parties, and increases in expenses in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these third parties suffers negative publicity or harm to their reputation from events relating to their businesses, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third party.

In addition, if appropriate opportunities arise, we may acquire additional assets, products, technologies, or businesses that are complementary to our existing business. In addition to possible shareholder approval, we may have to obtain approvals and licenses from relevant government authorities for the acquisitions and to comply with any applicable PRC laws and regulations, which could result in increasing delay and costs, and may derail our business strategy if we fail to do so. Moreover, the costs of identifying and consummating acquisitions may be significant. Furthermore, past and future acquisitions and the subsequent integration of new assets and businesses into our own require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our operations. Acquired assets or businesses may not generate the financial results we expect. Acquisitions could result in the use of substantial amount of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets, and exposure to potential unknown liabilities of the acquired business. As of December 31, 2018, 2019, and 2020 and March 31, 2021, we had net intangible assets of RMB671.4 million, RMB673.9 million, RMB683.3 million (US\$104.3 million), and RMB684.6 million (US\$104.5 million), respectively, which primarily consist of the automotive manufacturing permission, software, and patents. We test finite-lived intangible assets for impairment if impairment indicators arise. The indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Although we recorded no impairment of intangible assets for the years ended December 31, 2018, 2019, and 2020 and for the three months ended March 31, 2021, any significant impairment loss charged against our intangible assets could materially and adversely affect our business, financial condition, and results of operations.

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Furthermore, any acquired business may be involved in legal proceedings originating from historical periods prior to the acquisition, and we may not be fully indemnified, or at all, for any damage to us resulting from such legal proceedings, which could materially and adversely affect our financial position and results of operations.

If we fail to implement and maintain an effective system of internal control over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations, or prevent fraud.

In connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2018 and 2019, we and PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, identified one material weakness in our internal control over financial reporting as of December 31, 2019. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, or the PCAOB, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company’s annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The material weakness identified relates to our lack of sufficient competent financial reporting and accounting personnel with appropriate understanding of U.S. GAAP to design and implement formal period-end financial reporting policies and procedures to address complex U.S. GAAP technical accounting issues and to prepare and review our consolidated financial statements and related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC.

We have implemented a number of measures to address the material weakness, including: (i) we have hired additional qualified financial and accounting staff with working experience with U.S. GAAP and SEC reporting requirements; (ii) we have established clear roles and responsibilities for accounting and financial reporting staff to address complex accounting and financial reporting issues; (iii) we have clarified reporting requirements and established effective oversight to address complex and non-recurring transactions and related accounting issues; (iv) we have developed and implemented a comprehensive and effective period-end closing process, especially for complex and non-recurring transactions to ensure financial statements and related disclosures are in compliance with U.S. GAAP and SEC reporting requirements; (v) we have established an internal audit team to enhance internal controls and assess the design and effectiveness of our internal controls; and (vi) we are conducting regular U.S. GAAP accounting and financial reporting training programs for accounting and financial reporting personnel. We also intend to hire additional resources to strengthen the financial reporting function. We will continue to implement measures to remediate the material weakness. Although the aforementioned remediation measures were implemented, these measures will require validation and testing of the operating effectiveness of internal controls over a sustained period of financial reporting cycles. As a result, the previously identified material weakness still existed as of December 31, 2020.

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We are a public company in the United States and are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, and the rules and regulations of the Nasdaq Global Select Market. Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, will require us to include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F beginning with the fiscal year ending December 31, 2021. In addition, as we ceased to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting beginning with our annual report for the fiscal year ending December 31, 2021. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal control or the level at which our control is documented, designed, operated, or reviewed, or if it interprets the relevant requirements differently from us. In addition, as we have become a public company, our reporting obligations may place a significant strain on our management, operational, and financial resources and systems for the foreseeable future. We may be unable to complete our evaluation testing and any required remediation in a timely manner.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain adequate and effective internal control over financial reporting, as these standards are modified, supplemented, or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our Class A ordinary shares or ADSs. Additionally, ineffective internal control over financial reporting could expose us to increasing risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations, and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

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

We have invested and expect to continue to invest significantly in what we believe is modern tooling, machinery, and other manufacturing equipment for the product lines where Li ONE is manufactured, and we depreciate the cost of such equipment over their expected useful lives. However, manufacturing technology may evolve rapidly, and we may decide to update our manufacturing process with advanced equipment more quickly than expected. Moreover, as

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our engineering and manufacturing expertise and efficiency increase, we may be able to manufacture our products using less of our installed equipment. The useful life of any equipment that would be retired early as a result would be shortened, causing the depreciation on such equipment to be accelerated, and to the extent we own such equipment, our results of operations could be negatively impacted. We are planning on the reconfiguration of our Changzhou factory for our new model pipeline, especially the full-size premium SUV based on the X platform to be launched in 2022. The investment for the expansion and reconfiguration of our Changzhou factory is estimated to be approximately RMB1.6 billion, over 65% will be used for the purchase of production facilities and the remaining will be used for construction of manufacturing plants. Our increased investment in the manufacturing plants will result in an increase in depreciation cost upon expansion of our Changzhou factory, which could adversely affect our financial condition and results of operations.

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

Our Li Auto App, in-car technology system, and other digitalized sales, service, user relationship, internal information and knowledge management systems depend on the continued operation of our information technology and communications systems. These systems are vulnerable to damage or interruption from, among others, fire, terrorist attacks, natural disasters, power loss, telecommunications failures, computer viruses, computer denial of service attacks, or other attempts to harm our systems. Our data centers are also subject to break-ins, sabotage, and intentional acts of vandalism, and to potential disruptions. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. Any problems at our data centers could result in lengthy interruptions in our service. In addition, our products and services are highly technical and complex and may contain errors or vulnerabilities, which could result in interruptions in our services or the failure of our systems.

We may be subject to anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions, and similar laws, and noncompliance with such laws can subject us to administrative, civil, and criminal penalties, collateral consequences, remedial measures, and legal expenses, all of which could adversely affect our business, results of operations, financial condition, and reputation.

We may be subject to anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions, and similar laws and regulations in various jurisdictions in which we conduct activities, including the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-corruption laws and regulations. The FCPA prohibits us and our officers, directors, employees, and business partners acting on our behalf, including agents, from corruptly offering, promising, authorizing, or providing anything of value to a “foreign official” for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The FCPA also requires companies to make and keep books,

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records, and accounts that accurately reflect transactions and dispositions of assets and to maintain a system of adequate internal accounting controls. A violation of these laws or regulations could adversely affect our business, reputation, financial condition, and results of operations.

We have direct or indirect interactions with officials and employees of government agencies and state-owned affiliated entities in the ordinary course of business. We also have business collaborations with government agencies and state-owned affiliated entities. These interactions subject us to an increasing level of compliance-related concerns. We are in the process of implementing policies and procedures designed to ensure compliance by us and our directors, officers, employees, representatives, consultants, agents, and business partners with applicable anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions, and similar laws and regulations. However, our policies and procedures may not be sufficient and our directors, officers, employees, representatives, consultants, agents, and business partners could engage in improper conduct for which we may be held responsible.

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

We may be subject to legal proceedings in the ordinary course of our business. If the outcomes of these proceedings are adverse to us, it could have a material adverse effect on our business, results of operations, and financial condition.

We may be subject to legal proceedings from time to time in the ordinary course of our business, which could have a material adverse effect on our business, results of operations, and financial condition. Claims arising out of actual or alleged violations of law could be asserted against us by our users, our competitors, governmental entities in civil or criminal investigations and proceedings, or other entities. These claims could be asserted under a variety of laws, including but not limited to product liability laws, consumer protection laws, intellectual property laws, labor and employment laws, securities laws, tort laws, contract laws, property laws, and employee benefit laws. There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. Even if we are successful in our attempt to defend ourselves in legal and administrative actions or to assert our rights under various laws, enforcing our rights against the various parties involved may be expensive, time-consuming, and ultimately futile. These actions could expose us to negative publicity and to substantial monetary damages and legal defense costs, injunctive relief, and criminal, civil, and administrative fines and penalties.

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Certain of our directors have been named as defendants in several shareholder class action lawsuits.

Several putative shareholder class action lawsuits have been filed against certain of our directors. See “Directors and Senior Management—Directors—Legal proceedings involving certain Directors” for more details. We are currently unable to estimate the potential loss, if any, associated with the resolution of such lawsuits, if they proceed. We anticipate that we or certain of our directors or officers may be a target for lawsuits in the future, including putative class action lawsuits brought by our shareholders and lawsuits against our directors and officers as a result of their position in other public companies. We cannot assure you that our directors or officers and we will be able to prevail in their defense or reverse any unfavorable judgment on appeal, and our directors or officers and we may decide to settle lawsuits on unfavorable terms. Any adverse outcome of these cases, including any plaintiffs’ appeal of the judgment in these cases, could result in payments of substantial monetary damages or fines, or changes to our business practices, and thus materially and adversely affect our business, financial condition, results of operation, cash flows, and reputation. In addition, we cannot assure you that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial performance.

Any financial or economic crisis, or perceived threat of such a crisis, including a significant decrease in consumer confidence, may materially and adversely affect our business, financial condition, and results of operations.

The global financial markets experienced significant disruptions in 2008 and the United States, European and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and the global financial markets are facing new challenges, including the escalation of the European sovereign debt crisis since 2011, the hostilities in the Ukraine, the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014, uncertainties over the impact of Brexit, the ongoing trade disputes and tariffs, and the impact of COVID-19 outbreak and the related economic policies taken by various governments in the world. It is unclear whether these challenges will be contained and what effects they each may have. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world’s leading economies, including China’s. Economic conditions in China are sensitive to global economic conditions. Recently there have been signs that the rate of China’s economic growth is declining. Any prolonged slowdown in China’s economic development might lead to tighter credit markets, increased market volatility, sudden drops in business and consumer confidence and dramatic changes in business and consumer behaviors. Sales of premium products, such as our vehicles, depend in part on discretionary consumer spending and are even more exposed to adverse changes in general

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economic conditions. In response to their perceived uncertainty in economic conditions, consumers might delay, reduce or cancel purchases of our vehicles and our results of operations may be materially and adversely affected.

The current tensions in international trade and rising political tensions, particularly between the United States and China, may adversely impact our business, financial condition, and results of operations.

Although cross-border business may not be an area of our focus, if we plan to sell our products internationally in the future, any unfavorable government policies on international trade, such as capital controls or tariffs, may affect the demand for our products and services, impact the competitive position of our products, or prevent us from being able to sell products in certain countries. If any new tariffs, legislation, or regulations are implemented, or if existing trade agreements are renegotiated, such changes could adversely affect our business, financial condition, and results of operations. Recently there have been heightened tensions in international economic relations, such as the one between the United States and China. The U.S. government has recently imposed, and has recently proposed to impose additional, new, or higher tariffs on certain products imported from China to penalize China for what it characterizes as unfair trade practices. China has responded by imposing, and proposing to impose additional, new, or higher tariffs on certain products imported from the United States. Following mutual retaliatory actions for months, on January 15, 2020, the United States and China entered into the Economic and Trade Agreement Between the United States of America and the People's Republic of China as a phase one trade deal, effective on February 14, 2020.

In addition, political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the PRC central government and the executive orders issued by former U.S. President Donald J. Trump in August 2020 that prohibit certain transactions with certain Chinese companies and their applications. Rising political tensions could reduce levels of trades, investments, technological exchanges, and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition, and results of operations.

As we depend on parts and components from suppliers, some of which are overseas, tariffs by the PRC government or any other trade tensions may affect the costs of our products. Demand for our vehicles depends to a large extent on general, economic, political, and social conditions in China. The current international trade tensions and political tensions between the United States and China, and any escalation of such tensions, may have a negative impact on such general, economic, political, and social conditions and accordingly demands for our vehicles, adversely impacting our business, financial condition, and results of operations.

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Unexpected termination of leases, failure to renew the lease of our existing premises or to renew such leases at acceptable terms could materially and adversely affect our business.

We lease the premises for manufacturing, research and development, retail stores, delivery and servicing centers and offices. We cannot assure you that we would be able to renew the relevant lease agreements without substantial additional cost or increase in the rental cost payable by us. If a lease agreement is renewed at a rent substantially higher than the current rate, or currently existing favorable terms granted by the lessor are not extended, our business and results of operations may be adversely affected.

RISKS RELATING TO OUR CORPORATE STRUCTURE

If the PRC government deems that our contractual arrangements with our VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Current PRC laws and regulations place certain restrictions on foreign ownership of certain areas of businesses. For example, pursuant to the 2020 Negative List, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (excluding e-commerce, domestic multiparty communications, store-and-forward and call centers). In addition, foreign investors are prohibited from investing in companies engaged in internet culture businesses (except for music) and radio and television program production businesses.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign-invested enterprises, or FIEs. Therefore, neither we nor our FIEs are currently eligible to apply for the required licenses for providing internet information services or other value-added telecommunication services or conduct other businesses that foreign-owned companies are prohibited or restricted from conducting in China. To comply with applicable PRC laws and regulations, we conduct certain operations in China by entering into a series of contractual arrangements with our VIEs in China and its respective shareholders. In particular, Beijing CHJ holds a Surveying and Mapping Qualification Certificate. Beijing CLX, a wholly-owned subsidiary of Beijing CHJ, currently holds a Value-Added Telecommunication Business Operating License for Internet Information Service, or the ICP License, a Value-Added Telecommunication Business Operating License for Information Service (excluding internet information service), an Internet Culture Business Permit, and an Operating License for the Production and Dissemination of Radio and Television Programs. For a detailed description of these contractual arrangements, see “Contractual Arrangements.” We conduct our operations in China through our PRC subsidiaries and our VIEs with which we maintained these contractual arrangements. Investors in our Class A ordinary shares or the ADSs thus are not purchasing equity interest in our VIEs in China but instead are purchasing equity interest in a Cayman Islands holding company with no equity ownership of our VIEs.

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In the opinion of Han Kun Law Offices, our PRC Legal Advisor, (i) the ownership structures of our wholly-owned subsidiary Wheels Technology and our VIEs in China, both currently and immediately after giving effect to this offering, are not in violation of any explicit provisions of PRC laws and regulations currently in effect; and (ii) each of the contracts among the WFOE, our VIEs, and their respective Registered Shareholders governed by PRC laws is valid and binding. However, we have been advised by our PRC Legal Advisor that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations, and rules, and there can be no assurance that the PRC regulatory authorities will take a view that is consistent with the opinion of our PRC Legal Advisor.

Our holding company in the Cayman Islands, our VIEs, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with our VIEs and, consequently, the business, financial condition, and results of operations of our VIEs and our company as a group. It is uncertain whether any new PRC laws or regulations relating to VIE structures will be adopted or if adopted, what they would provide. In particular, the National People's Congress approved the Foreign Investment Law, or the 2019 PRC Foreign Investment Law on March 15, 2019, which came into effect on January 1, 2020. In addition, the PRC State Council approved the Implementation Rules of Foreign Investment Law on December 26, 2019, which came into effect on January 1, 2020. There are uncertainties as to how the 2019 PRC Foreign Investment Law and its Implementation Rules would be further interpreted and implemented, if it would represent a major change to the laws and regulations relating to the VIE structures. See “—Risks Relating to Doing Business in China—Substantial uncertainties exist with respect to the interpretation and implementation of newly enacted 2019 PRC Foreign Investment Law and its Implementation Rules and how they may impact the viability of our current corporate structure, corporate governance, and operations.”

If the ownership structure, contractual arrangements, and businesses of our PRC subsidiaries or our VIEs are found to be in violation of any existing or future PRC laws or regulations, or our PRC subsidiaries or our VIEs fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses or operating licenses of such entities;
- shutting down our servers or blocking our website or our mobile application, or discontinuing or placing restrictions or onerous conditions on our operation through any transactions between our PRC subsidiaries and VIEs;
- imposing fines, confiscating the income from our PRC subsidiaries or our VIEs, or imposing other requirements with which we or our VIEs may not be able to comply;

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- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our VIEs and deregistering the equity pledge of our VIEs, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our VIEs; or
- restricting or prohibiting our use of the proceeds of our the Global Offering to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of our VIEs that most significantly impact their economic performance, or our failure to receive the economic benefits from our VIEs, we may not be able to consolidate the entities in our consolidated financial statements in accordance with U.S. GAAP.

We rely on contractual arrangements with our VIEs and their respective shareholders to exercise control over our business, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on contractual arrangements with our VIEs and their respective shareholders to conduct a portion of our operations in China. For a description of these contractual arrangements, see “Contractual Arrangements.” The respective shareholders of our VIEs may not act in the best interests of our company or may not perform their obligations under these contracts. If we had direct ownership of our VIEs, we would be able to exercise our rights as a shareholder to control our VIEs to excise rights of shareholders to effect changes in the board of directors of our VIEs, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the contractual arrangements, we would rely on legal remedies under PRC laws for breach of contract in the event that our VIEs and their respective shareholders did not perform their obligations under the contracts. These legal remedies may not be as effective as direct ownership in providing us with control over our VIEs.

If our VIEs or their respective shareholders fail to perform their obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements, and rely on legal remedies under PRC laws, including contractual remedies, which may not be sufficient or effective. All of the agreements under our contractual arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these contractual arrangements will be resolved through arbitration in China. However, the legal framework and system in China, in particularly those relating to arbitration proceedings, are not as developed as in some other jurisdictions, such as Hong Kong or the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of an VIE should be

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interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in the PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. If we are unable to enforce these contractual arrangements, or if we suffer significant delay or face other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our VIEs, and our ability to conduct our business may be negatively affected. See “—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.”

Our ability to enforce the equity pledge agreements between us and our VIEs’ shareholders may be subject to limitations based on PRC laws and regulations.

Pursuant to the equity interest pledge agreements between Beijing CHJ and Xindian Information, our VIEs, their respective shareholders, and Wheels Technology, our wholly-owned PRC subsidiary, each shareholder of Beijing CHJ and Xindian Information agrees to pledge its equity interests in the relevant VIE to our subsidiary to secure Beijing CHJ and Xindian Information’s performance of the relevant VIE’s obligations under the relevant contractual arrangements. The equity interest pledge of shareholders of Beijing CHJ and Xindian Information has been registered with the local branch of the SAMR. The equity interest pledge agreements with our VIEs’ shareholders provide that the pledged equity interest shall constitute continuing security for any and all of the indebtedness, obligations and liabilities under the relevant agreements and the scope of pledge shall not be limited by the amount of the registered capital of that VIE. However, a PRC court may take the position that the amount listed on the equity pledge registration forms represents the full amount of the collateral that has been registered and perfected. If this is the case, the obligations that are supposed to be secured in the equity interest pledge agreements in excess of the amount listed on the equity pledge registration forms could be determined by the PRC court as unsecured debt, which typically takes last priority among creditors.

If we exercise the option to acquire equity ownership of our VIE, the ownership transfer may subject us to certain limitations and substantial costs.

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises (外商投資電信企業管理規定), the ultimate foreign equity ownership in a value-added telecommunications services provider cannot exceed 50%. In addition, the main foreign investor who invests in a value-added telecommunications business in China must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations in such industry, or the Qualification Requirements. Currently, none of the applicable PRC laws, regulations, or rules provides clear guidance or interpretation on the Qualification Requirements. Although we have taken many measures to meet the Qualification Requirements, we still face the risk of not satisfying the requirements promptly.

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If the PRC laws were revised to allow foreign investors to hold more than 50% of the equity interests of value-added telecommunications enterprises, we might be unable to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements, or if we attempt to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements, we may be ineligible to operate our value-added telecommunication enterprises and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition, and results of operations.

Pursuant to the Contractual Arrangements, Wheels Technology or its designated person has the exclusive right to purchase all or part of the equity interests in our consolidated VIEs at the lower of the amount of their respective paid-in capital in the consolidated VIE and the lowest price permitted under applicable PRC laws. Subject to relevant laws and regulations, the shareholders of our consolidated VIEs shall return any amount of purchase price they have received to Wheels Technology. If such a transfer takes place, the relevant tax authority may ask Wheels Technology to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

The registered shareholders of our VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The registered shareholders of Beijing CHJ and Xindian Information, our VIEs, may have potential conflicts of interest with us. These shareholders may breach, or cause our VIEs to breach, or refuse to renew, the existing contractual arrangements we have with them and our VIEs, which would have a material and adverse effect on our ability to effectively control our VIEs and receive economic benefits from them. For example, the shareholders may be able to cause our agreements with our VIEs to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in our VIEs to a PRC entity or individual designated by us, to the extent permitted by PRC law. For individual shareholders who are also our directors, we rely on them to abide by the laws of the Cayman Islands and China, which provide that directors owe a fiduciary duty to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. There is currently no specific and clear guidance under PRC laws that addresses any conflict between PRC laws and laws of Cayman Islands in respect of any conflict relating to corporate governance. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our VIEs, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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The shareholders of our VIEs may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the relevant VIEs and the validity or enforceability of our contractual arrangements with the relevant entity and its shareholders. For example, in the event that any of the shareholders of our VIEs divorces his or her spouse, the spouse may claim that the equity interest of the relevant VIE held by such shareholder is part of their community property and should be divided between such shareholder and his or her spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder's spouse or another third party who is not subject to obligations under our contractual arrangements, which could result in a loss of the effective control over the relevant VIE by us. Similarly, if any of the equity interests of our VIEs is inherited by a third party with whom the current contractual arrangements are not binding, we could lose our control over the relevant VIE or have to maintain such control by incurring unpredictable costs, which could cause significant disruption to our business and operations and harm our financial condition and results of operations.

Our contractual arrangements with our VIEs may be subject to scrutiny by the PRC tax authorities and they may determine that we or our VIEs owe additional taxes, which could negatively affect our financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. The PRC enterprise income tax law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. We may face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust the income of our VIEs in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our VIEs for PRC tax purposes, which could in turn increase its tax liabilities without reducing Wheels Technology's tax expenses. In addition, if Wheels Technology requests the shareholders of our VIEs to transfer their equity interest in our VIEs at nominal or no value pursuant to the contractual agreements, such transfer could be viewed as a gift and subject Wheels Technology to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on our VIEs for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if any of our VIEs' tax liabilities increase or they are required to pay late payment fees and other penalties.

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We may lose the ability to use and benefit from assets held by our VIEs that are material to the operation of our business if either of our VIEs goes bankrupt or becomes subject to dissolution or liquidation proceeding.

As part of our contractual arrangements with our VIEs, these entities may in the future hold certain assets that are material to the operation of our business. If either of our VIEs goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, our VIEs may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If either of our VIEs undergoes voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN CHINA

Changes in China's economic, political or social conditions or government policies could have a material and adverse effect on our business and results of operations.

We expect that substantially all of our revenues will be derived in China and substantially all of our operations, including all of our manufacturing, are conducted in China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. The PRC government also exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. While the PRC economy has experienced significant growth over the past decades, that growth has been uneven across different regions and between economic sectors and may not continue, as evidenced by the slowing of the growth of the Chinese economy since 2012. Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. For example, COVID-19 had a severe and negative impact on the Chinese economy in the first quarter of 2020. Whether this will lead to a prolonged downturn in the Chinese economy is still unknown. Any prolonged economic downturn could adversely affect our business and operating results, leading to reduction in demand for our services and solutions and adversely affect our competitive position.

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Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

Our PRC subsidiaries are FIEs and are subject to laws and regulations applicable to FIEs as well as various Chinese laws and regulations generally applicable to companies incorporated in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

Substantial uncertainties exist with respect to the interpretation and implementation of newly enacted 2019 PRC Foreign Investment Law and its Implementation Rules and how they may impact the viability of our current corporate structure, corporate governance, and operations.

On March 15, 2019, the PRC National People's Congress approved the 2019 PRC Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law, and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. On December 26, 2019, the PRC State Council approved the Implementation Rules of Foreign Investment Law, which came into effect on January 1, 2020. The 2019 PRC Foreign Investment Law and its Implementation Rules embody an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since the 2019 PRC Foreign Investment Law is relatively new, substantial uncertainties exist with respect to its interpretation and implementation.

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The VIE structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “—Risks Relating to Our Corporate Structure.” Under the 2019 PRC Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Although it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities in the future. In addition, the definition contains a catch-all provision providing that investments made by foreign investors through other methods specified in laws or administrative regulations or other methods prescribed by the State Council, which leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a method of foreign investment. Given the foregoing, it is uncertain whether our contractual arrangements will be deemed to be in violation of the market entry clearance requirements for foreign investment under the PRC laws and regulations.

The 2019 PRC Foreign Investment Law specifies that foreign investments shall be conducted in line with the “negative list” to be issued by or approved to be issued by the State Council. An FIE would not be allowed to make investments in prohibited industries in the “negative list,” while the FIE must satisfy certain conditions stipulated in the “negative list” for investment in restricted industries. It is uncertain whether the value-added telecommunication service industry, in which our VIEs and their subsidiaries operate, will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued in the future, although it is subject to the foreign investment restrictions set forth in the currently effective negative list. Moreover, the 2019 PRC Foreign Investment Law does not indicate what actions must be taken by existing companies with a VIE structure to obtain the market entry clearance if such structure would be deemed as a method of foreign investment. If our VIE structure would be deemed as a method of foreign investment, and any of our business operation would fall in the “negative list,” and if the interpretation and implementation of the 2019 PRC Foreign Investment Law and the final “negative list” mandate further actions, such as market entry clearance granted by the Ministry of Commerce, to be completed by companies with an existing VIE structure like us, we face uncertainties as to whether such clearance can be timely obtained, or at all. There are uncertainties as to how the 2019 PRC Foreign Investment Law would be further interpreted and implemented. We cannot assure you that the interpretation and implementation of the 2019 PRC Foreign Investment Law made by the relevant governmental authorities in the future will not materially impact the viability of our current corporate structure, corporate governance and business operations in any aspect.

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We may be adversely affected by the complexity, uncertainties and changes in PRC regulations on automotive as well as internet-related businesses and companies.

We operate in highly regulated industries. In particular, our vehicle manufacturing is subject to extensive regulations in China. See “Regulations—Regulations and Approvals Covering the Manufacturing of Battery Electric Passenger Vehicles,” “Regulations—Regulations on Compulsory Product Certification,” “Regulations—Regulations on Automobile Sales,” and “Regulations—Regulations on the Recall of Defective Automobiles.” Several PRC regulatory authorities, such as the SAMR, the NDRC, the MIIT, and the Ministry of Commerce, oversee different aspects of our operations, including but not limited to:

- assessment of vehicle manufacturing enterprises;
- market admission of NEVs;
- compulsory product certification;
- direct sales model;
- product liabilities;
- sales of vehicle;
- environmental protection system; and
- work safety and occupational health requirements.

We are required to obtain a wide range of government approvals, licenses, permits, and registrations in connection with our operations as well as to follow multiple mandatory standards or technical norms in our manufacturing and our vehicles. However, the interpretation of these regulations may change and new regulations may come into effect, which could disrupt or restrict our operations, reduce our competitiveness, or result in substantial compliance costs. For example, pursuant to the Administrative Rules on the Admission of New Energy Vehicle Manufacturers and Products which was promulgated by the MIIT in January 2017 and amended in July 2020, our vehicles must meet the requirements set forth in the New Energy Vehicle Products Special Examination Project and Standards stipulated and amended by the MIIT from time to time based on the development of the NEV industry and relevant standards. In addition, certain filings must be made by automobile dealers through the information system for the national automobile circulation operated by the relevant commerce department within 90 days after the receipt of a business license and the information must be updated within 30 days after the change of basic information recorded. Our direct sales model is relatively new and uncommon in the automotive industry, and there can be no assurance that this model will not be subject to further regulations. As we are expanding our sales and distribution network and setting up additional retail stores in China, we cannot assure you that we will be able to complete such filings in a timely manner. If any of our current or

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future sales subsidiaries or branches fail to make the necessary filings, such sales subsidiaries or branches may be subject to orders to promptly rectify the non-compliance or fines up to RMB10,000. Furthermore, the NEV industry is relatively new in China, and the PRC government has not adopted a clear regulatory framework to regulate the industry yet. As some of the laws, rules, and regulations that we may be subject to were primarily enacted with a view toward application to ICE vehicles, or are relatively new, there are significant uncertainties regarding their interpretation and application with respect to our business. For example, although the Provisions on Administration of Investment in Automotive Industry promulgated by the NDRC on December 10, 2018 has categorized our vehicles as electric vehicles, it remains unclear when our vehicles would be deemed as electric vehicles that exempt from the license plate lottery system for ICE vehicles in Beijing by the local authorities. In addition, on November 25, 2020, the SAMR issued a circular to regulate the recall of defective automobiles with over-the-air, or OTA, technology. The circular provides that automakers that provide technical services through OTA are required to complete filing with the SAMR and those who have provided such services through OTA must complete such filing before December 31, 2020. We cannot assure you that we have satisfied or will continue to satisfy all of the laws, rules, and regulations in the timely manner or at all.

The PRC regulatory authorities' interpretation of such laws, rules, and regulations may change, which could materially and adversely affect the validity of the approvals, qualifications, licenses, permits, and registrations we obtained or completed. Any failure to comply may result in fines, restrictions, and limits on our operations, as well as suspension or revocation of certain certificates, approvals, permits, licenses, or filings we have already obtained or made.

In addition, the PRC government imposes foreign ownership restriction and the licensing and permit requirements for companies in the internet industry. See “Regulations—Regulations on Foreign Investment in China” and “Regulations—Regulations on Value-added Telecommunications Services.” These laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We do not directly conduct such business due to the restrictions on foreign investment in businesses providing value-added telecommunications services in China and we rely on contractual arrangements with our VIEs to operate value-added telecommunications services. Beijing CLX currently holds an ICP License and a Value-Added Telecommunication Business Operating License for information service (excluding internet information service). Our VIEs may be required to obtain additional licenses or permits for certain services carried out by us through our mobile application or to update our existing licenses or permits. Failure to obtain or update such license may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other adverse impacts on us.

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We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated after-tax profits upon satisfaction of relevant statutory conditions and procedures, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. As of the Latest Practicable Date, our VIEs had not made appropriations to statutory reserves as our PRC subsidiaries and our VIEs reported accumulated loss. For a detailed discussion of applicable PRC regulations governing distribution of dividends, see “Regulations—Regulations on Dividend Distribution.” Additionally, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends or make other distributions to us. Furthermore, the PRC tax authorities may require our subsidiaries to adjust their taxable income under the contractual arrangements they currently have in place with our VIEs in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us. See “—Risks Relating to Our Corporate Structure—Our contractual arrangements with our VIEs may be subject to scrutiny by the PRC tax authorities and they may determine that we or our VIEs owe additional taxes, which could negatively affect our financial condition and the value of your investment.”

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See “—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

Increases in labor costs and enforcement of stricter labor laws and regulations in China may adversely affect our business and our profitability.

China’s overall economy and the average wage in China have increased in recent years and are expected to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will increase. Unless we are able to pass on these increased labor costs to our users, our profitability and results of operations may be materially and adversely affected.

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In addition, we have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law and its implementation rules, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employee's probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

As the interpretation and implementation of labor-related laws and regulations are still evolving, our employment practices may violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. We cannot assure you that we have complied or will be able to comply with all labor-related law and regulations including those relating to obligations to make social insurance payments and contribute to the housing provident funds. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations will be adversely affected.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management based on foreign laws.

We are an exempted company incorporated under the laws of the Cayman Islands, while we conduct substantially all of our operations in China, and substantially all of our assets are located in China. In addition, all our senior executive officers reside within China for a significant portion of the time and all our senior executive officers are PRC nationals. As a result, it may be difficult for our shareholders to effect service of process upon us or those persons inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigations initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and

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administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the PRC territory. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase the difficulties you face in protecting your interests. See also “—Risks Relating to Our Shares and ADSs—You may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong or U.S. courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with investing in us as a Cayman Islands company.

Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.

The conversion of Renminbi into foreign currencies, including Hong Kong dollars and the U.S. dollars, is based on rates set by the People’s Bank of China. The Renminbi has fluctuated against Hong Kong dollars and the U.S. dollars, at times significantly and unpredictably. The value of Renminbi against Hong Kong dollars, the U.S. dollars and other currencies is affected by changes in China’s political and economic conditions and by China’s foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against Hong Kong dollars and the U.S. dollars in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollars in the future.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy. Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Class A ordinary shares or ADSs in foreign currency. For example, to the extent that we need to convert Hong Kong dollars we receive from the Global Offering into Renminbi to pay our operating expenses, appreciation of Renminbi against the U.S. dollars would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, a significant depreciation of Renminbi against Hong Kong dollars and the U.S. dollars may significantly reduce Hong Kong dollars and the U.S. dollars equivalent of our earnings, which in turn could adversely affect the price of our Class A ordinary shares or ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. We enter into hedging transactions in an effort to reduce our exposure to foreign currency exchange risk when we deem appropriate. While we may decide to enter into further hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition,

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our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Under PRC laws and regulations, we are permitted to utilize the proceeds from the Global Offering to fund our PRC subsidiaries by making loans to or additional capital contributions to our PRC subsidiaries, subject to applicable government registration, statutory limitations on amount and approval requirements. For more details, see “Regulations—Regulations on Foreign Exchange.” These PRC laws and regulations may significantly limit our ability to use Renminbi converted from the net proceeds of the Global Offering to fund the establishment of new entities in China by our PRC subsidiaries, to invest in or acquire any other PRC companies through our PRC subsidiaries, or to establish new VIEs in China. Moreover, we cannot assure you that we will be able to complete the necessary registrations or filings, or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or filings, or obtain such approvals, our ability to use the proceeds we received or expect to receive from the Global Offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On December 26, 2017, the NDRC issued the Management Rules for Overseas Investment by Enterprises, or Order 11. On January 31, 2018, the Catalog on Overseas Investment in Sensitive Industries (2018 Edition), or the Sensitive Industries List was promulgated. Overseas investment governed by Order 11 refers to the investment activities conducted by an enterprise located in the territory of China either directly or via an overseas enterprise under its control through making investment with assets and equities or providing financing or guarantees in order to obtain overseas ownership, control, management rights and other related interests, and overseas investment by a PRC individual through overseas enterprises under his/her control is also subject to Order 11. According to Order 11, before being conducted, any overseas investment in a sensitive industry or any direct investment by a Chinese enterprise in a non-sensitive industry but with an investment amount over US\$300 million requires approval from, or filing with, the NDRC respectively, and for those non-sensitive investments indirectly by Chinese investors (including PRC individuals) with investment amount over US\$300 million need to be reported. However, uncertainties remain with respect to the interpretation and application of Order 11, we are not sure whether our using of proceeds will be subject to Order 11. If we fail to obtain the approval, complete the filing or report our overseas investment with our proceeds (as the case may be) in a timely manner provided that Order 11 is applicable, we may be forced to suspend or cease our investment, or be subject to penalties or other liabilities, which could materially and adversely affect our business, financial condition and prospects.

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Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and our VIEs to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi. See “Regulations—Regulations on Foreign Exchange.” Any failure to comply with applicable foreign exchange regulations may subject us to administrative fines or, if serious, criminal penalties, which could materially and adversely affect the value of your investment.

Since 2016, the PRC government has tightened its foreign exchange policies again and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process have been put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may also restrict access in the future to foreign currencies for current account transactions, at its discretion. We receive substantially all of our revenues in RMB. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our Class A ordinary shares or ADSs.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.

SAFE requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes certain material events. See “Regulations—Regulations on Foreign Exchange—Offshore Investment.”

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and any proceeds from any reduction in capital, share transfer or liquidation to us, and

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we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with SAFE registration requirements could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interests in our company, nor can we compel our beneficial owners to comply with SAFE registration requirements. As of the date of this document, our founder, Mr. Li Xiang, and ten other PRC residents known to us that currently hold direct or indirect ownership interests in our company have completed the required initial registrations with SAFE. Mr. Li Xiang and other officers or directors are planning to update the registrations with respect to the capital of their respective offshore holding vehicles. As a result, we cannot assure you that all of our shareholders or beneficial owners that are PRC residents, including the beneficiaries of certain trusts directly or indirectly holding interests in our company, have complied with, and will in the future make, obtain, or update any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

China's M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations have established procedures and requirements that could make merger and acquisition activities in China by foreign investors more time consuming and complex. In addition to the Anti-monopoly Law itself, these include the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and the Rules of the Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the Security Review Rules, promulgated in 2011. These laws and regulations impose requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In addition, the Anti-Monopoly Law requires that the anti-monopoly enforcement agency be notified in advance of any concentration of undertaking if certain thresholds are triggered. On February 7, 2021, the Anti-Monopoly Committee of the State Council published the Anti-Monopoly Guidelines for the Internet Platform Economy Sector, which stipulates that any concentration of undertakings involving variable interest entities is subject to anti-monopoly review. Moreover, the Security Review Rules specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the Ministry of Commerce, and prohibit any attempt to bypass a security review, including by structuring the transaction through a proxy or contractual

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control arrangement. On December 19, 2020, the NDRC and the Ministry of Commerce jointly issued the Measures for the Security Review for Foreign Investment, which took effect on January 18, 2021. These measures set forth the provisions concerning the security review mechanism on foreign investment, including, among others, the types of investments subject to review, and the review scopes and procedures. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from the Ministry of Commerce and other PRC government authorities, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Under SAFE regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. See “Regulations—Regulations on Employment and Social Welfare—Employee Stock Incentive Plan.” We and our PRC resident employees who participate in our share incentive plans are subject to these regulations as we are publicly listed in the United States. We are in the process of registration with the local counterparts of SAFE for our PRC resident employees who participate in our share incentive plans as required under the relevant rules. If we or any of these PRC resident employees fail to comply with these regulations, we or such employees may be subject to fines and other legal or administrative sanctions. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law.

The approval of the CSRC or other PRC government authorities may be required in connection with this offering under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.

The M&A Rules requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and this offering may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, such CSRC approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for this offering, or a rescission of such CSRC approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

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Our PRC Legal Advisor has advised us that, based on its understanding of the current PRC laws and regulations, we will not be required to submit an application to the CSRC for the approval of the listing and trading of our Class A ordinary shares because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours under this prospectus are subject to this regulation, (ii) our wholly-owned PRC subsidiaries were not established through a merger or requisition of the equity or assets of a “PRC domestic company” as such term is defined under the M&A Rules, and (iii) no provision in this regulation clearly classifies contractual arrangements as a type of transaction subject to its regulation. However, we cannot assure you that relevant PRC government authorities, including the CSRC, would reach the same conclusion as our PRC Legal Advisor. If it is determined that the CSRC approval is required for this offering, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities. Recently, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions are recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. We cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval from the CSRC or other regulatory authorities or other procedures are required for this offering, it is uncertain whether we can or how long it will take us to obtain such approval or complete such procedures and any such approval or completion could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for this offering, or a rescission of any such approval if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or other government authorization for this offering. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from this offering into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our shares. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the shares offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for this offering, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of the shares.

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Discontinuation of any of the preferential tax treatments and government subsidies or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Our PRC subsidiaries currently benefit from a number of preferential tax treatments. For example, Beijing CHJ, is entitled to enjoy, after completing certain application formalities, a 15% preferential enterprise income tax from 2019 as it has been qualified as a “High New Technology Enterprise” under the PRC Enterprise Income Tax Law and related regulations. The discontinuation of any of the preferential income tax treatment that we currently enjoy could have a material and adverse effect on our result of operations and financial condition. We cannot assure you that we will be able to maintain or lower our current effective tax rate in the future.

In addition, our PRC subsidiaries have received various financial subsidies from PRC local government authorities. The financial subsidies result from discretionary incentives and policies adopted by PRC local government authorities. Local governments may decide to change or discontinue such financial subsidies at any time. The discontinuation of such financial subsidies or imposition of any additional taxes could adversely affect our financial condition and results of operations.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of China with a “de facto management body” within China is considered a PRC resident enterprise. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. The State Administration of Taxation, or the SAT, issued a circular in April 2009 and amended it in January 2014, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in China; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (iii) the

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enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in China; and (iv) at least 50% of voting board members or senior executives habitually reside in China.

We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to the enterprise income tax on our global income at the rate of 25% and we will be required to comply with PRC enterprise income tax reporting obligations. In addition, gains realized on the sale or other disposition of our Class A ordinary shares or ADSs may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the Class A ordinary shares or ADSs.

We may not be able to obtain certain benefits under relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the PRC Enterprise Income Tax Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC "resident enterprise" to a foreign enterprise investor, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, such withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC enterprise. Furthermore, the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties, which became effective in August 2015, require non-resident enterprises to determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant report and materials with the tax authorities. In addition, based on the Notice on Issues concerning Beneficial Owner in Tax Treaties, or Circular 9, issued on February 3, 2018 by the SAT, which became effective from April 1, 2018, when determining the applicant's status of the "beneficial owner" regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of the applicant's income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. There are also other conditions for enjoying the reduced

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withholding tax rate according to other relevant tax rules and regulations. See “Financial Information—Taxation—China.” As of March 31, 2021, most of our subsidiaries and VIEs located in China reported accumulated loss and therefore they had no retained earnings for offshore distribution. We intend to re-invest all earnings, if any, generated from our PRC subsidiaries for the operation and expansion of our business in China. Should our tax policy change to allow for offshore distribution of our earnings, we would be subject to a significant withholding tax. Our determination regarding our qualification to enjoy the preferential tax treatment could be challenged by the relevant tax authority and we may not be able to complete the necessary filings with the relevant tax authority and enjoy the preferential withholding tax rate of 5% under the arrangement with respect to dividends to be paid by our PRC subsidiaries to our Hong Kong subsidiary.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

In February 2015, the SAT issued the Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Resident Enterprises, or SAT Public Notice 7. SAT Public Notice 7 extends its tax jurisdiction to not only indirect transfers but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides certain criteria on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the nonresident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017.

The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of nonresident enterprise income tax.

We face uncertainties on the reporting and consequences of future private equity financing transactions, share exchanges or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect

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to withholding obligation, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed under SAT Public Notice 7 and SAT Bulletin 37, and may be required to expend valuable resources to comply with them or to establish that we and our non-resident enterprises should not be taxed under these regulations, which may have a material adverse effect on our financial condition and results of operations.

If the custodians or authorized users of controlling non-tangible assets of our company, including our corporate chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected.

Under PRC laws, legal documents for corporate transactions are executed using the chops or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant branch of the SAMR.

Although we usually utilize chops to enter into contracts, the designated legal representatives of each of our PRC subsidiaries, our VIEs, and their subsidiaries have the apparent authority to enter into contracts on behalf of such entities without chops and bind such entities. All designated legal representatives of our PRC subsidiaries, our VIEs, and their subsidiaries are members of our senior management team who have signed employment agreements with us or our PRC subsidiaries, our VIEs, and their subsidiaries under which they agree to abide by various duties they owe to us. In order to maintain the physical security of our chops and chops of our PRC entities, we generally store these items in secured locations accessible only by the authorized personnel in the legal or finance department of each of our subsidiaries, our VIEs, and their subsidiaries. Although we monitor such authorized personnel, there is no assurance such procedures will prevent all instances of abuse or negligence. Accordingly, if any of our authorized personnel misuse or misappropriate our corporate chops or seals, we could encounter difficulties in maintaining control over the relevant entities and experience significant disruption to our operations. If a designated legal representative obtains control of the chops in an effort to obtain control over any of our PRC subsidiaries, our VIEs, or their subsidiaries, we or our PRC subsidiaries, our VIEs, and their subsidiaries would need to pass a new shareholders or board resolution to designate a new legal representative and we would need to take legal action to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the representative's fiduciary duties to us, which could involve significant time and resources and divert management attention away from our regular business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

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Our leased property interest may be defective and our right to lease the properties affected by such defects challenged, which could cause significant disruption to our business.

Under PRC laws, all lease agreements are required to be registered with the local housing authorities. We presently lease several premises in China, some of which the landlords have not completed the registration of their ownership rights or the registration of our leases with the relevant authorities. Failure to complete these required registrations may expose our landlords, lessors and us to potential monetary fines. If these registrations are not obtained in a timely manner or at all, we may be subject to monetary fines or may have to relocate our offices and incur the associated losses.

Some of the ownership certificates or other similar proof of certain leased properties or authorization documents have not been provided to us by the relevant lessors. Therefore, we cannot assure you that such lessors are entitled to lease the relevant real properties to us. If the lessors are not entitled to lease the real properties to us and the owners of such real properties decline to ratify the lease agreements between us and the respective lessors, we may not be able to enforce our rights to lease such properties under the respective lease agreements against the owners. If our lease agreements are claimed as null and void by third parties who are the real owners of such leased real properties, we could be required to vacate the properties, in the event of which we could only initiate the claim against the lessors under relevant lease agreements for indemnities for their breach of the relevant leasing agreements. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our operations in a timely manner, our operations may be adversely affected.

Our ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections.

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. According to the HFCA Act, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC will prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this prospectus, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the PRC authorities, our auditor is currently not inspected by the PCAOB.

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On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCA Act. We will be required to comply with these rules if the SEC identifies us as having a “non-inspection” year under a process to be subsequently established by the SEC. The SEC is assessing how to implement other requirements of the HFCA Act, including the listing and trading prohibition requirements described above.

The SEC may propose additional regulatory or legislative requirements or guidance that could impact us if our auditor is not subject to PCAOB inspection. For example, on August 6, 2020, the President’s Working Group on Financial Markets, or the PWG, issued the Report on Protecting United States Investors from Significant Risks from Chinese Companies to the then President of the United States. This report recommended the SEC implement five recommendations to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfill its statutory mandate. Some of the concepts of these recommendations were implemented with the enactment of the HFCA Act. However, some of the recommendations were more stringent than the HFCA Act. For example, if a company was not subject to PCAOB inspection, the report recommended that the transition period before a company would be delisted would end on January 1, 2022.

The SEC has announced that the SEC staff is preparing a consolidated proposal for the rules regarding the implementation of the HFCA Act and to address the recommendations in the PWG report. It is unclear when the SEC will complete its rulemaking and when such rules will become effective and what, if any, of the PWG recommendations will be adopted. The implications of this possible regulation in addition the requirements of the HFCA Act are uncertain. Such uncertainty could cause the market price of our ADSs to be materially and adversely affected, and our securities could be delisted or prohibited from being traded “over-the-counter” earlier than would be required by the HFCA Act. If our securities are unable to be listed on another securities exchange by then, such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ADSs.

The PCAOB’s inability to conduct inspections in China prevents it from fully evaluating the audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ordinary shares or ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB in China or

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by the CSRC or the PRC Ministry of Finance in the United States. The PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in China of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges.

Proceedings instituted by the SEC against the “big four” PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the “big four” PRC-based accounting firms (including our auditors). The Rule 102(e) proceedings initiated by the SEC relate to these firms’ inability to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in China are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC laws and specific directives issued by the China Securities Regulatory Commission, or the CSRC. The issues raised by the proceedings are not specific to our auditors or to us, but affect equally all audit firms based in China and all China-based businesses with securities listed in the United States.

In January 2014, the administrative judge reached an initial decision that each of these firms should be barred from practicing before the SEC for six months. Thereafter, the accounting firms filed a petition for review of the initial decision, prompting the SEC commissioners to review the initial decision, determine whether there had been any violation and, if so, determine the appropriate remedy to be placed on these audit firms.

In February 2015, “big four” PRC-based accounting firms (including our auditors) each agreed to censure and pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S. listed companies. The settlement requires the firms to follow detailed procedures and to seek to provide the SEC with access to the Chinese firms’ audit documents via the CSRC. Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019.

While we cannot predict if the SEC will further challenge the four China-based accounting firms’ compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with the SEC requirements could ultimately lead to the delisting of our Class A

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ordinary shares from the exchange or the termination of the registration of our Class A ordinary shares under the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our Class A ordinary shares in the United States.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, and could result in delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our shares may be adversely affected. If our independent registered public accounting firm was denied, temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act.

RISKS RELATING TO OUR SHARES AND ADSS

The trading price of our ADSs has been and may be, and the trading price of our Class A ordinary shares can be, volatile, which could result in substantial losses to investors.

The trading price of our ADSs has been volatile since our ADSs started to trade on the Nasdaq Global Select market, and could fluctuate widely due to factors beyond our control. The trading price of our Class A ordinary shares, likewise, can be volatile for similar or different reasons. This may happen because of broad market and industry factors, like the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong or the United States. The securities of some of these companies have experienced significant volatility, including price declines in connection with their public offerings. The trading performances of these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in Hong Kong or the United States in general and consequently may impact the trading performance of our Class A ordinary shares or ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our Class A ordinary shares or ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new services and expansions by us or our competitors;

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- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our services or our industry;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- actual or potential litigation or regulatory investigations; and
- regulatory developments affecting us, our users, suppliers, or our industry.

Any of these factors may result in large and sudden changes in the volume and price at which our Class A ordinary shares or ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares or ADSs may view as beneficial.

Pursuant to our existing Articles, our authorized and issued ordinary shares consist of Class A ordinary shares and Class B ordinary shares (with certain shares remaining undesignated, with power for our directors to designate and issue such classes of shares as they think fit). In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares and Class B ordinary shares vote together as a single class except as may otherwise be required by law, and holders of Class A ordinary shares will be entitled to one vote per share while holders of Class B ordinary shares will be entitled to ten votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon (i) any direct or indirect sale, transfer, assignment, or disposition of Class B ordinary shares by a holder thereof to any person or entity that is not an affiliate of Mr. Li Xiang, or (ii) the direct or indirect sale, transfer, assignment, or disposition of a majority of the issued and outstanding voting securities of, or the direct or indirect transfer or assignment of the voting power attached to such voting securities through voting proxy or otherwise, or the direct or indirect sale, transfer, assignment, or disposition of all or substantially all of the assets

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of, a holder of Class B ordinary shares that is an entity to any person that is not an affiliate of Mr. Li Xiang, such Class B ordinary shares are automatically and immediately converted into an equal number of Class A ordinary shares.

Immediately following the completion of the Global Offering, Mr. Li Xiang, our chairman and chief executive officer, beneficially owned 355,812,080 Class B ordinary shares and 108,557,400 CEO Award Shares (which are Class A Ordinary Shares with one vote per share), representing 69.59% of the aggregate voting power of our total issued and outstanding ordinary shares assuming none of the performance-based conditions is met and no award premium is paid in respect of all CEO Award Shares and without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans, due to the disparate voting powers associated with our dual-class voting structure. See “Substantial Shareholders” and “Relationship with the Controlling Shareholders—Controlling Shareholders.” Mr. Li will continue to have considerable influence over matters requiring shareholder approval, such as electing directors and approving material mergers, acquisitions, or other business combination transactions. This concentration of ownership may discourage, delay, or prevent a change of control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our Class A ordinary shares or ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover, or other change of control transactions that holders of Class A ordinary shares or ADSs may view as beneficial.

Certain principal shareholders have substantial influence over our key corporate matters and will continue to have such influence following the Global Offering.

Certain principal shareholders of our company have certain special rights with respect to our key corporate matters, in addition to voting power based on beneficial ownership in our company. Pursuant to our fourth amended and restated memorandum and articles of association, Amp Lee Ltd., an entity beneficially owned by Mr. Li Xiang, our chairman and chief executive officer, is entitled to appoint, remove, and replace at least one director as well as to appoint the chairman of the Board, subject to certain conditions. Pursuant to an investor rights agreement dated July 9, 2020 with Inspired Elite Investments Limited, our shareholder and a wholly owned subsidiary of Meituan, Inspired Elite Investments Limited and certain related entities are entitled to a series of special rights, including the right to appoint, remove, and replace one director, certain consent rights, and right of first refusal on change of control. These special rights enable these principal shareholders to have substantial influence over our key corporate matters and could discourage others from pursuing any change of control transaction that holders of our Class A ordinary shares or ADSs may view as beneficial. The Company will put forth a resolution at the First GM to remove from its Articles the aforementioned special right of Amp Lee Ltd. and will, prior to the Listing, irrevocably undertake to the Stock Exchange to treat such special rights as terminated upon the Listing and before the existing Articles are formally amended. See “Waivers and Exemptions—Requirements relating to the Articles of Association of the Company”. The

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special rights, except the right of first refusal on change of control, of Inspired Elite Investments Limited and certain related entities will be automatically terminated upon the Listing. See “History, Reorganization and Corporate Structure—Investor Rights Agreement.”

Our dual-class voting structure may render the ADSs representing our Class A ordinary shares ineligible for inclusion in certain stock market indices, and thus adversely affect the trading price and liquidity of the ADSs.

Certain index providers have announced restrictions on including companies with multi-class share structures in certain of their indices. For example, S&P Dow Jones and FTSE Russell have changed their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. As a result, our dual-class voting structure may prevent the inclusion of the ADSs representing our Class A ordinary shares in such indices, which could adversely affect the trading price and liquidity of the ADSs representing our Class A ordinary shares.

If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our Class A ordinary shares or ADSs, the market price for our Class A ordinary shares or ADSs and trading volume could decline.

The trading market for our Class A ordinary shares or ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our Class A ordinary shares or ADSs, the market price for our Class A ordinary shares or ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume for our Class A ordinary shares or ADSs to decline.

The sale or availability for sale of a substantial amount of our Class A ordinary shares or ADSs could adversely affect their market price.

Sales of a substantial amount of our Class A ordinary shares or ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our Class A ordinary shares or ADSs and could materially impair our ability to raise capital through equity offerings in the future. Shares held by our existing shareholders may also be sold in the public market in the future subject to the restrictions in Rule 144 and Rule 701 under the Securities Act and the applicable lock-up agreements. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our Class A ordinary shares or ADSs.

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Because we do not expect to pay dividends in the foreseeable future after the Global Offering, you must rely on price appreciation of our Class A ordinary shares or ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings after the Global Offering to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Class A ordinary shares or ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends. Our shareholders may also by ordinary resolution declare dividends, but no dividend shall exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our Class A ordinary shares or ADSs will likely depend entirely upon any future price appreciation of our Class A ordinary shares or ADSs. There is no guarantee that our Class A ordinary shares or ADSs will appreciate in value or even maintain the price at which you purchased the Class A ordinary shares or ADSs. You may not realize a return on your investment in our Class A ordinary shares or ADSs and you may even lose your entire investment in our Class A ordinary shares or ADSs.

We have not determined a specific use for a portion of the net proceeds from the Global Offering, and we may use these proceeds in ways with which you may not agree.

We have not determined a specific use for a portion of the net proceeds of the Global Offering, and our management will have considerable discretion in deciding how to apply these proceeds. You will not have the opportunity to assess whether the proceeds are being used appropriately before you make your investment decision. You must rely on the judgment of our management regarding the application of the net proceeds of the Global Offering. We cannot assure you that the net proceeds will be used in a manner that will improve our results of operations or increase our Class A ordinary shares or ADSs price, nor that these net proceeds will be placed only in investments that generate income or appreciate in value.

Our fourth amended and restated memorandum and articles of association give us power to take certain actions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including Class A ordinary shares represented by the ADSs, at a premium.

Our fourth amended and restated memorandum and articles of association give us power to take certain actions that could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar

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transaction. Our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Class A ordinary shares, in the form of ADSs or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our Class A ordinary shares or ADSs may fall and the voting and other rights of the holders of our Class A ordinary shares or ADSs may be materially and adversely affected. However, our exercise of any such power that may limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions under the Articles after the Global Offering will be subject to our overriding obligations to comply with all applicable Hong Kong laws and regulations, the Listing Rules, and the Codes on Takeovers and Mergers and Share Buy-backs. We will, at the first general meeting to be convened in or before January 2022, propose to our shareholders certain amendments to our Articles, including removing the Directors' discretion to, for the purpose of variation of rights attached to any class of shares, treat all the Classes or any two or more Classes as forming one Class if they consider that all such Classes would be affected in the same way by the proposals under consideration under article 19 of the existing Articles, the Directors' powers to authorize the division of Shares into any number of classes and to determine the relative rights and obligations as between the different classes and to issue such shares with preferred or other rights that may be greater than the rights of the Class A Ordinary Shares under article 9 of the existing Articles, as well as making the Directors' powers to issue preferred shares under article 9 of the existing Articles to be subject to the Articles, compliance with the Listing Rules and the Takeovers Code and the conditions that (i) no new class of shares with voting rights superior to those of Class A Ordinary Shares will be created and (ii) any variations in the relative rights as between the different classes will not result in creating new class of shares with voting rights superior to those of Class A Ordinary Shares (together, the **"Amendment of Directors' Class Right Related Powers"**). For a more detailed discussion on the proposed amendments to our Articles, see "Waivers and Exemptions—Requirements Relating to the Articles of Association of the Company."

You may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong or U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our fourth amended and restated memorandum and articles of association, the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of

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whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in Hong Kong or some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than Hong Kong or the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a Hong Kong court or a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than copies of the memorandum and articles of association, the register of mortgages and charges, and any special resolutions passed by the shareholders) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as Hong Kong or the United States. If we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in Hong Kong or the United States.

Your investment in our Class A ordinary shares or ADSs may be impacted if we are encouraged to issue CDRs in the future.

PRC government authorities have issued new rules that allow PRC technology companies listed outside China to list on the mainland stock market through the creation of Chinese Depositary Receipts, or CDRs. However, as the CDR mechanism is newly established, there are substantial uncertainties in the interpretation and implementation of these rules. We might consider and be encouraged by the evolving PRC governmental policies to issue CDRs and allow investors to trade our CDRs on PRC stock exchanges in the future. However, there are uncertainties as to whether a pursuit of CDRs in China would bring positive or negative impact on your investment in our Class A ordinary shares or ADSs.

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The conversion of the 2028 Notes or any convertible notes that we may issue in the future may dilute the ownership interest of the existing shareholders and existing ADS holders, including holders who had previously converted their notes.

We issued US\$862.5 million 0.25% convertible senior notes due 2028 in April 2021, which may be converted, at an initial conversion rate of 35.2818 ADSs per US\$1,000 principal amount of notes (which represents an initial conversion price of US\$28.34 per ADS) at each holder's option at any time on or after November 1, 2027, until the close of business on the second scheduled trading day immediately preceding the maturity date of May 1, 2028, or at the option of the holders upon satisfaction of certain conditions and during certain periods prior to the close of business on the business day immediately preceding November 1, 2027. As the conversion of the 2028 Notes may take place anytime during such periods if the relevant conditions are fulfilled, the conversion of the 2028 Notes and any convertible notes that we may issue in the future will dilute the ownership interests of existing shareholders and existing ADS holders. Any sales in the public market of the ADSs issuable upon such conversion may increase the opportunities to create short positions with respect to the ADSs, which could adversely affect prevailing trading prices of our ADSs. In addition, the existence of such convertible notes may encourage short selling by market participants because the conversion of such notes could depress the price of our ADSs. The price of our ADSs could be affected by possible sales of our ADSs by investors who view the convertible notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity, which we expect to occur involving our ADSs.

We may not have the ability to raise the funds necessary to settle conversion of the notes in cash, to repurchase the notes upon a fundamental change, to repurchase notes on May 1, 2024 and May 1, 2026, and our future debt may contain limitations on our ability to pay cash upon conversion or to repurchase the notes.

Holders of the 2028 Notes have the right to require us to repurchase their notes on May 1, 2024 and May 1, 2026 or upon the occurrence of a fundamental change (as defined in the indenture), in each case, at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the notes surrendered therefor or to settle the notes being converted. Our failure to repurchase the notes at a time when the repurchase is required by the indenture governing the notes or to pay any cash payable on future conversions of the notes as required by the indenture governing the notes would constitute a default under the indenture. A default under the indenture or a fundamental change itself could also lead to a default under agreements governing any of our future indebtedness outstanding at the time. If the repayment of any outstanding future indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof.

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Techniques employed by short sellers may drive down the market price of our Class A ordinary shares or ADSs.

Short selling is the practice of selling securities that a seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding relevant issuers and their business prospects in order to create negative market momentum and generate profits for themselves after selling securities short.

Public companies listed in the United States that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits or SEC enforcement actions.

It is not clear what effect such negative publicity could have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law, or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and shareholders' equity, and any investment in our Class A ordinary shares or ADSs could be greatly reduced or rendered worthless.

ADS holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, subject to the depository's right to require a claim to be submitted to arbitration, the federal or state courts in the City of New York have exclusive jurisdiction to hear and determine claims arising under the deposit agreement (including claims arising under the Exchange Act or the Securities Act) and in that regard, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our Class A ordinary shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

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If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before investing in the ADSs.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and/or the depositary. If a lawsuit is brought against us or the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not enforced, to the extent a court action proceeds, it would proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs shall relieve us or the depositary from our respective obligations to comply with the Securities Act and Exchange Act, and investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands company and the majority of our assets are located outside of Hong Kong or the United States. Substantially all of our operations are conducted in China. In addition, most of our current directors and officers are nationals and residents of countries other than Hong Kong or the United States. Substantially all of the assets of these persons may be located outside Hong Kong or the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in Hong Kong or the United States in the event that you believe that your rights have been infringed under Hong Kong laws, the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

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We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of the Nasdaq Global Select Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely than that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq listing standards.

As a Cayman Islands company listed on the Nasdaq Global Select Market, we are subject to Nasdaq listing standards. However, the Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from Nasdaq listing standards. For example, neither the Companies Act of the Cayman Islands nor our fourth amended and restated memorandum and articles of association requires a majority of our directors to be independent and we could include non-independent directors as members of our compensation committee and nominating committee, and our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. As a result of these home country practices we may follow in the future, our

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shareholders may be afforded less protection than they otherwise would under the Nasdaq listing standards applicable to U.S. domestic issuers. In addition, if we are subject to listing standards or other rules or regulations of other jurisdictions in the future, those requirements may further change the degree of protection for our shareholders to the extent they differ from the Nasdaq listing standards applicable to U.S. domestic issuers.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct how the Class A ordinary shares represented by your ADSs are voted.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights that are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. If we instruct the depositary to ask for your instructions, then upon receipt of your voting instructions, the depositary will try, as far as practicable, to vote the underlying Class A ordinary shares represented by your ADSs in accordance with these instructions. If we do not instruct the depositary to ask for your voting instructions, the depositary may still vote in accordance with the instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw the shares and become a registered holder of such shares prior to the record date for the general meeting. Under our fourth amended and restated memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders for convening a general meeting is seven days.

When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the Class A ordinary shares underlying your ADSs and become the registered holder of such shares to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our fourth amended and restated memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class A ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary sufficient prior notice of shareholder meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying Class A ordinary shares represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your

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voting instructions. This means that you may not be able to exercise your right to direct how the Class A ordinary shares represented by your ADSs are voted and you may have no legal remedy if the Class A ordinary shares represented by your ADSs are not voted as you requested.

The depositary for our ADSs will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not vote, the depositary will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that if you do not vote at shareholders' meetings, you cannot prevent our Class A ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our Class A ordinary shares are not subject to this discretionary proxy.

Your rights to pursue claims against the depositary as a holder of ADSs are limited by the terms of the deposit agreement.

Under the deposit agreement, any action or proceeding against or involving the depositary, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding.

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The depositary may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement. These arbitration provisions govern such dispute or difference and do not, in any event, preclude you from pursuing claims under the Securities Act or the Exchange Act in state or federal courts.

You may not receive dividends or other distributions on our Class A ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian receives on Class A ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, Class A ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, Class A ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our Class A ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

You may experience dilution of your holdings due to inability to participate in rights offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

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You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

We may incur increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company.”

We are a public company and incur significant legal, accounting, and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and Nasdaq Global Select Market, impose various requirements on the corporate governance practices of public companies. As we are no longer an “emerging growth company” since December 31, 2020, we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. For example, as a result of becoming a public company, we increased the number of independent directors and adopted policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company makes it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise

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capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING AND THE DUAL LISTING

An active trading market for our Class A ordinary shares on the Hong Kong Stock Exchange might not develop or be sustained and trading prices of our Class A ordinary shares might fluctuate significantly.

Following the completion of the Global Offering, we cannot assure you that an active trading market for our Class A ordinary shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for our ADSs on the Nasdaq Global Select Market might not be indicative of those of our Class A ordinary shares on the Hong Kong Stock Exchange following the completion of the Global Offering. If an active trading market of our Class A ordinary shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Global Offering, the market price and liquidity of our Class A ordinary shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai, and Shenzhen stock exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and PRC investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai, and Shenzhen markets. Stock Connect allows PRC investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, PRC investors would not otherwise have a direct and established means of engaging in Southbound Trading. In October 2019, the Shanghai and Shenzhen stock exchanges separately announced their amended implementation rules in connection with Southbound Trading to include shares of WVR companies to be traded through Stock Connect. However, since these rules are relatively new, there remains uncertainty as to the implementation details, especially with respect to shares of those companies with a secondary or dual-primary listing on the Hong Kong Stock Exchange. It is unclear whether and when the Class A ordinary shares of our Company, a WVR company with a dual-primarily listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Class A ordinary shares for trading through Stock Connect will affect PRC investors' ability to trade our Class A ordinary shares and therefore may limit the liquidity of the trading of our Class A ordinary shares on the Hong Kong Stock Exchange.

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Since there will be a gap of several days between pricing and trading of our Class A ordinary shares, the price of our ADSs traded on the Nasdaq Global Select Market may fall during this period and could result in a fall in the price of our Class A ordinary shares to be traded on the Hong Kong Stock Exchange.

The pricing of the Offer Shares will be determined on the Price Determination Date. However, our Class A ordinary shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be about four Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Class A ordinary shares during that period. Accordingly, holders of our Class A ordinary shares are subject to the risk that the trading price of our Class A ordinary shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins. In particular, as our ADSs will continue to be traded on the Nasdaq Global Select Market and their price can be volatile, any fall in the price of our ADSs may result in a fall in the price of our Class A ordinary shares to be traded on the Hong Kong Stock Exchange.

The characteristics of the U.S. capital markets and the Hong Kong capital markets are different.

The Nasdaq Global Select Market and the Hong Kong Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Class A ordinary shares and the ADSs representing them might not be the same, even allowing for currency differences. Fluctuations in the price of the ADSs due to circumstances peculiar to its home capital market could materially and adversely affect the price of the Class A ordinary shares. Because of the different characteristics of the U.S. and Hong Kong equity markets, the historic market prices of the ADSs may not be indicative of the performance of our securities (including the ordinary shares) after the Global Offering.

Exchange between our Class A ordinary shares and the ADSs may adversely affect the liquidity or trading price of each other.

The ADSs are currently traded on the Nasdaq Global Select Market. Subject to compliance with U.S. securities laws and the terms of the deposit agreement, holders of our Class A ordinary shares may deposit Class A ordinary shares with the depositary in exchange for the issuance of the ADSs. Any holder of ADSs may also withdraw the underlying Class A ordinary shares represented by the ADSs pursuant to the terms of the deposit agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Class A ordinary shares are deposited with the depositary in exchange for ADSs or vice versa, the liquidity and trading price of our Class A ordinary shares on the Hong Kong Stock Exchange and the ADSs on the Nasdaq Global Select Market may be adversely affected.

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The time required for the exchange between our Class A ordinary shares and the ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Class A ordinary shares into ADSs involves costs.

There is no direct trading or settlement between the Nasdaq Global Select Market and the Hong Kong Stock Exchange on which the ADSs and our Class A ordinary shares are respectively traded. In addition, the time differences between Hong Kong and New York, unforeseen market circumstances, or other factors may delay the deposit of Class A ordinary shares in exchange for the ADSs or the withdrawal of Class A ordinary shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, we cannot assure you that any exchange for Class A ordinary shares into ADSs (and vice versa) will be completed in accordance with the timelines that investors may anticipate.

Furthermore, the depositary for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Class A ordinary shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs, and annual service fees. As a result, shareholders who exchange Class A ordinary shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

We may be subject to securities litigation, which is expensive and could divert management attention.

Companies that have experienced volatility in the volume and market price of their shares have been subject to an increased incidence of securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, and, if adversely determined, could have a material adverse effect on our business, financial condition and results of operations.

As the public offering price is substantially higher than our net tangible book value per ordinary share, you will incur immediate and substantial dilution.

If you purchase ordinary shares in the Global Offering, you will pay more for your Class A ordinary shares than the amount paid by existing holders for their Class A ordinary shares or ADSs on a per ordinary share basis. As a result, you will experience immediate and substantial dilution after giving effect to the Global Offering. In addition, you will experience further dilution to the extent that our ordinary shares are issued upon the exercise of share options or vesting of restricted share units. All of the ordinary shares issuable upon the exercise of currently outstanding share options will be issued at a purchase price on a per ordinary share basis that is less than the public offering price per ordinary share in the Global Offering.

WAIVERS AND EXEMPTIONS

In preparation for the Listing, we have sought the following waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Our Group's management headquarters, senior management, business operations and assets are primarily based outside Hong Kong, in Mainland China. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Group and therefore would not be in the best interests of our Company or the Shareholders as a whole.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, our Company has appointed and will continue to maintain two authorized representatives who shall act at all times as the principal channel of communication with the Stock Exchange. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange. At present, our two authorized representatives are Mr. Li Tie, our executive Director and Chief Financial Officer, and Ms. Lau Yee Wa, our joint company secretary;
- (b) Each Director will provide his/her contact details, including mobile phone numbers, office phone numbers, residential phone numbers, e-mail addresses and facsimile numbers to the Stock Exchange and to the authorized representatives in accordance with Rule 3.20 of the Listing Rules. This will ensure that the Stock Exchange and the authorized representatives should have means for contacting all Directors promptly at all times as and when required;
- (c) we will ensure that each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period;

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- (d) pursuant to Rule 3A.19 and Rule 8A.33 of the Listing Rules, our Company has retained the services of Somerley Capital Limited as compliance adviser (the “**Compliance Adviser**”), who will act as an additional channel of communication with the Stock Exchange. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company’s authorized representatives and Directors. In turn, they will provide the Compliance Adviser with such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser’s duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 and Rule 8A.34 of the Listing Rules; and
- (e) meetings between the Stock Exchange and the Directors can be arranged through the authorized representatives or the Compliance Adviser, or directly with the Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Adviser in accordance with the Listing Rules.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles they played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

WAIVERS AND EXEMPTIONS

- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company appointed Mr. Wang Yang and Ms. Lau Yee Wa of Tricor Services Limited as joint company secretaries of our Company on May 5, 2021. Please refer to the section headed “Directors and senior management—Joint Company secretaries” for their biographies.

Ms. Lau is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly “The Institute of Chartered Secretaries and Administrators”), and therefore meets the qualification requirements under Rule 3.28 Note 1 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Our Company’s principal business activities are outside Hong Kong. Our Company believes that it would be in the best interests of our Company and the corporate governance of our Group to have as its joint company secretary a person such as Mr. Wang Yang, who is an employee of our Company and who has day-to-day knowledge of our Company’s affairs. Mr. Wang Yang has the necessary nexus to the Board and close working relationship with management of our Company in order to perform the function of a joint company secretary and to take the necessary actions in the most effective and efficient manner.

Accordingly, while Mr. Wang Yang does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Wang Yang may be appointed as a joint company secretary of our Company.

The waiver was granted for a three-year period from the Listing Date and, in accordance with Guidance Letter HKEX-GL108-20, on the conditions that: (i) Ms. Lau Yee Wa is appointed as a joint company secretary to assist Mr. Wang Yang in discharging his functions as a company secretary and in gaining the relevant experience under Rule 3.28 of the Listing Rules; the waiver will be revoked immediately if Ms. Lau Yee Wa, during the three-year period, ceases to provide assistance to Mr. Wang Yang as the joint company secretary; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by our Company. In addition, Mr. Wang Yang will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the Listing Date. Our Company will further ensure that Mr. Wang Yang has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange. Before the end of the three-year period, the qualifications and experience of Mr. Wang Yang and the need for on-going assistance of Ms. Lau Yee Wa will be further evaluated by our Company. We will liaise with the Stock Exchange to enable it to assess whether Mr. Wang Yang, having benefited from the assistance of Ms. Lau Yee Wa for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Rule 3.28 Note 2 of the Listing Rules so that a further waiver will not be necessary.

WAIVERS AND EXEMPTIONS

REQUIREMENTS RELATING TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

As the Company is applying for a dual primary listing on the Stock Exchange, the Articles are required to comply with Appendix 3 and Appendix 13, Part B, of the Listing Rules. Rule 19.30(1)(b) of the Listing Rules provides that the Stock Exchange may refuse a listing if it is not satisfied that the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong.

Rule 8A.44 of the Listing Rules requires issuers with WVR structures such as our Company to give force to the requirements of Rules 8A.07, 8A.09, 8A.10, 8A.13, 8A.14, 8A.15, 8A.16, 8A.17, 8A.18, 8A.19, 8A.21, 8A.22, 8A.23, 8A.24, 8A.26, 8A.27, 8A.28, 8A.29, 8A.30, 8A.31, 8A.32, 8A.33, 8A.34, 8A.35, 8A.37, 8A.38, 8A.39, 8A.40 and 8A.41 by incorporating them into their articles of association or equivalent document (together with the requirements under Appendix 3 and Appendix 13, Part B, to the Hong Kong Listing Rules, the **"Listing Rules Articles Requirements"**).

The Company's Articles do not comply with some of the Listing Rules Articles Requirements, namely, (i) paragraphs 1(1), 1(2), 2(1), 4(1)-(5), 5, 7(2), 8, 10(2), 11(1) and 14 of Appendix 3 to the Hong Kong Listing Rules, (ii) paragraphs 1, 2(1), 3(1)-(3), 4(1)-(2) and 5(1)-(4) of Part B of Appendix 13 to the Hong Kong Listing Rules and (iii) Rules 8A.09, 8A.13 to 8A.19, 8A.22 to 8A.24, 8A.26 to 8A.35 and 8A.37 to 8A.41 of the Hong Kong Listing Rules (together, the **"Unmet Listing Rules Articles Requirements"**). Other than the said Unmet Listing Rules Articles Requirements, the remaining Listing Rules Articles Requirements are met by the Articles. The Company will seek shareholders' approval to incorporate the Unmet Listing Rules Articles Requirements into its Articles at its first general meeting to be convened in or before January 2022 (the **"First GM"**).

Details of the Unmet Listing Rules Articles Requirements to be incorporated into the Company's Articles are set out below:

To be approved by Class-based Resolution (defined below)

- (1) The articles of association shall stipulate that if at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied only with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question or with the sanction of a resolution passed at a separate general meeting of the holders of the shares of that class by members holding shares representing three-fourths in nominal value of the shares present in person or by proxy and voting at such meeting. The articles of association shall provide that to every such separate general meeting the provisions of the articles of association relating to general meetings shall mutatis mutandis apply, but the articles of association may vary the quorum provisions relevant to any such meeting (paragraph 2(1) of Part B of Appendix 13);

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- (2) Non-WVR (as defined under the Hong Kong Listing Rules) shareholders must be entitled to cast at least 10% of the votes that are eligible to be cast on resolutions at the listed issuer's general meetings.

Note 1: Compliance with this rule means, for example, that an issuer cannot list with a WVR structure that attaches 100% of the right to vote at general meetings to the beneficiaries of weighted voting rights.

Note 2: A beneficiary of weighted voting rights must not take any action that would result in a non-compliance with this rule.

A listed issuer must not increase the proportion of shares that carry weighted voting rights above the proportion in issue at the time of listing.

Note: If the proportion of shares carrying weighted voting rights is reduced below the proportion in issue at the time of listing, this rule 8A.13 shall apply to the reduced proportion of shares carrying weighted voting rights (Rules 8A.09 and 8A.13 of the Hong Kong Listing Rules);

- (3) A listed issuer with a WVR structure may only allot, issue or grant shares carrying weighted voting rights with the prior approval of the Hong Kong Stock Exchange and pursuant to (a) an offer made to all the issuer's shareholders pro rata (apart from fractional entitlements) to their existing holdings; (b) a pro rata issue of shares to all the issuer's shareholders by way of scrip dividends; or (c) pursuant to a stock split or other capital reorganization; provided that the Hong Kong Stock Exchange is satisfied that the proposed allotment or issuance will not result in an increase in the proportion of shares carrying weighted voting rights:
- (i) if, under a pro rata offer, beneficiaries of weighted voting rights do not take up any part of the shares carrying weighted voting rights (or rights to those shares) offered to them, those shares (or rights) not taken up could only be transferred to another person on the basis that such transferred rights will only entitle the transferee to an equivalent number of ordinary shares; and
 - (ii) to the extent that rights in a listed issuer's shares not carrying weighted voting in a pro rata offer are not taken up in their entirety (e.g. in the case where the pro rata offering is not fully underwritten), the number of the listed issuer's shares carrying weighted voting rights that can be allotted, issued or granted must be reduced proportionately. (Rule 8A.14 of the Hong Kong Listing Rules);
- (4) If a listed issuer with a WVR structure reduces the number of its shares in issue (e.g. through a purchase of its own shares) the beneficiaries of weighted voting rights must reduce their weighted voting rights in the issuer proportionately (for example through conversion of a proportion of their shareholding with those rights into shares without

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those rights), if the reduction in the number of shares in issue would otherwise result in an increase in the proportion of the listed issuer's shares that carry weighted voting rights (Rule 8A.15 of the Hong Kong Listing Rules);

- (5) After listing, a listed issuer with a WVR structure must not change the terms of a class of its shares carrying weighted voting rights to increase the weighted voting rights attached to that class (Rule 8A.16 of the Hong Kong Listing Rules);

Note: If a listed issuer wishes to change the terms of a class of its shares carrying weighted voting rights to reduce those rights it may do so but must, in addition to complying with any requirements under law, first obtain the prior approval of the Stock Exchange and, if approval is granted, must announce the change.

- (6) The beneficiary's weighted voting rights in a listed issuer must cease if, at any time after listing, the beneficiary is:
- (i) deceased;
 - (ii) no longer a member of the issuer's board of directors;
 - (iii) deemed by the Hong Kong Stock Exchange to be incapacitated for the purpose of performing his or her duties as a director; or
 - (iv) deemed by the Hong Kong Stock Exchange to no longer meet the requirements of a director set out in the Hong Kong Listing Rules;

The weighted voting rights attached to a beneficiary's shares must cease upon transfer to another person of the beneficial ownership of, or economic interest in those shares or the control over the voting rights attached to them (through voting proxies or otherwise). A limited partnership, trust, private company or other vehicle may hold shares carrying weighted voting rights on behalf of a beneficiary of weighted voting rights provided that such an arrangement does not result in a circumvention of rule 8A.18(1). The Hong Kong Stock Exchange would not consider a lien, pledge, charge or other encumbrance on shares carrying weighted voting rights to be a transfer for the purpose of rule 8A.18 on condition that this does not result in the transfer of the legal title or beneficial ownership of those shares or the voting rights attached to them (through voting proxies or otherwise). The Hong Kong Stock Exchange would consider a transfer to have occurred under rule 8A.18 if a beneficiary of weighted voting rights and a non-WVR shareholder(s) enter into any arrangement or understanding to the extent that this resulted in a transfer of weighted voting rights from the beneficiary of those weighted voting rights to the non-WVR shareholder (Rules 8A.17, 8A.18(1), 8A.18(2) and 8A.19 of the Listing Rules);

If a vehicle holding shares carrying weighted voting rights in a listed issuer on behalf of a beneficiary no longer complies with rule 8A.18(2), the beneficiary's weighted voting rights in the listed issuer must cease. The issuer and beneficiary must notify the Hong Kong Stock Exchange as soon as practicable with details of the non-compliance.

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- (7) A listed issuer's WVR structure must cease when none of the beneficiaries of the weighted voting rights at the time of the issuer's initial listing have beneficial ownership of shares carrying weighted voting rights. (Rule 8A.22 of the Hong Kong Listing Rules);
- (8) Non-WVR shareholders must be able to convene an extraordinary general meeting and add resolutions to the meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights on a one vote per share basis in the share capital of the listed issuer (Rule 8A.23 of the Hong Kong Listing Rules);
- (9) Any weighted voting rights attached to any class of shares in a listed issuer must be disregarded and must not entitle the beneficiary to more than one vote per share on any resolution to approve the following matters:
 - (i) changes to the listed issuer's constitutional documents, however framed;
 - (ii) variation of rights attached to any class of shares;
 - (iii) the appointment or removal of any independent non-executive director;
 - (iv) the appointment or removal of auditors; and
 - (v) the voluntary winding-up of the listed issuer (Rule 8A.24 of the Hong Kong Listing Rules).

To be approved by Non-class-based Resolution (defined below)

- (10) Transfers and other documents relating to or affecting the title to any registered securities shall be registered and where any fee or fees is/are charged, such fee or fees shall not exceed the maximum fees prescribed by the Stock Exchange from time to time in the Listing Rules (paragraph 1(1) of Appendix 3);
- (11) Fully-paid shares shall be free from any restriction on the right of transfer (except when permitted by the Stock Exchange) and shall also be free from all lien (paragraph 1(2) of Appendix 3);
- (12) All certificates for capital must be under seal, which may only be affixed with the authority of the directors, or be executed under signature of appropriate officials with statutory authority (paragraph 2(1) of Appendix 3);
- (13) Subject to such exceptions specified in the articles of association as the Stock Exchange may approve, a director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates has a material interest nor shall he be counted in the quorum present at the meeting (paragraph 4(1) of Appendix 3);

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- (14) Any person appointed by the directors to fill a casual vacancy on or as an addition to the board shall hold office only until the next following annual general meeting of the issuer, and shall then be eligible for re-election (paragraph 4(2) of Appendix 3);
- (15) Where not otherwise provided by law, the issuer in general meeting shall have power by ordinary resolution to remove any director (including a managing or other executive director, but without prejudice to any claim for damages under any contract) before the expiration of his period of office. The articles of association shall provide that directors may be removed at any time by ordinary resolution of the members (paragraph 4(3) of Appendix 3 and paragraph 5(1) of Part B of Appendix 13);
- (16) The minimum length of the period, during which notice to the issuer of the intention to propose a person for election as a director and during which notice to the issuer by such person of his willingness to be elected may be given, will be at least 7 days. The period for lodgment of the notices referred to above will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting (paragraphs 4(4) and 4(5) of Appendix 3);
- (17) A copy of either (i) the directors' report, accompanied by the balance sheet (including every document required by law to be annexed thereto) and profit and loss account or income and expenditure account, or (ii) the summary financial report shall, at least 21 days before the date of the general meeting, be delivered or sent by post to the registered address of every member (paragraph 5 of Appendix 3);
- (18) An overseas issuer whose primary listing is or is to be on the Stock Exchange shall give notice sufficient to enable members, whose registered addresses are in Hong Kong, to exercise their rights or comply with the terms of the notice. If the overseas issuer's primary listing is on another stock exchange, the Stock Exchange will normally be satisfied with an undertaking by the issuer to do so and will not normally request the issuer to change its articles to comply with this paragraph where it would be unreasonable to do so (paragraph 7(2) of Appendix 3);
- (19) Where the issuer has the power to purchase for redemption a redeemable share:- (1) purchases not made through the market or by tender shall be limited to a maximum price; and (2) if purchases are by tender, tenders shall be available to all shareholders alike (paragraph 8 of Appendix 3);
- (20) Where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favorable voting rights, must include the words "restricted voting" or "limited voting" (paragraph 10(2) of Appendix 3);
- (21) Where provision is made in the articles as to the form of proxy, this must be so worded as not to preclude the use of the two-way form (paragraph 11(1) of Appendix 3);

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- (22) Where any shareholder is, under the Hong Kong Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted (paragraph 14 of Appendix 3);
- (23) To the extent that the same is permissible under Cayman Islands law, the memorandum and articles of association must stipulate that they may not be changed without a special resolution, and the articles of association shall define “special resolution” to mean a resolution passed by members holding three-fourths of the voting rights of those present and voting in person or by proxy at a meeting of members (paragraph 1 of Part B of Appendix 13);
- (24) The articles of association shall stipulate that any annual general meeting must be called by notice of at least 21 days, and that any other general meeting (including an extraordinary general meeting) must be called by notice of at least 14 days. The articles of association shall stipulate that the notice convening a meeting shall contain particulars of the resolutions to be considered at that meeting.

Note: The articles of association may provide that issuers may convene a general meeting on shorter notice than required under this provision or the companies’ articles of association if it is agreed:

- (a) in the case of an annual general meeting, by all the members entitled to attend and vote at the meeting; and
 - (b) in any other case, by a majority in number of the members having the right to attend and vote at the meeting, being a majority together representing at least 95% of the total voting rights at the meeting of all the members. (paragraph 3(1) of Part B of Appendix 13);
- (25) The articles of association shall provide for the branch register of members in Hong Kong to be open for inspection by members but may permit the company to close the register in terms equivalent to section 632 of the Companies Ordinance (paragraph 3(2) of Part B of Appendix 13);
- (26) The articles of association shall require an annual general meeting to be held in each year and shall provide that the audited accounts shall be sent to members at the same time as the notice of annual general meeting (paragraph 3(3) of Part B of Appendix 13);
- (27) The articles of association shall require the issuer to keep proper books of account necessary to give a true and fair view of the issuer’s affairs (paragraph 4(1) of Part B of Appendix 13);

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- (28) The articles of association shall provide that accounts shall be audited and shall be laid before members at the annual general meeting which must be held in each year; not more than 15 months (or such longer period as the Hong Kong Stock Exchange may authorize) may elapse between the date of one annual general meeting and the next (paragraph 4(2) of Part B of Appendix 13);
- (29) The articles of association shall restrict the making of loans to directors and their close associates and shall import provisions at least equivalent to the provisions of Hong Kong law prevailing at the time of the adoption of the articles of association (paragraph 5(2) of Part B of Appendix 13);
- (30) The articles of association shall contain provisions requiring the directors to declare their material interests in any contracts with the issuer at the earliest meeting of the board of directors of the issuer at which it is practicable for them to do so either specifically or by way of a general notice stating that, by reason of facts specified in the notice, they are to be regarded as interested in any contracts of a specified description which may subsequently be made by the issuer (paragraph 5(3) of Part B of Appendix 13);
- (31) The articles of association shall stipulate that the issuer in general meeting must approve the payment to any director or past director of any sum by way of compensation for loss of office or as consideration or in connection with his retirement from office (not being a payment to which the director is contractually entitled) (paragraph 5(4) of Part B of Appendix 13);
- (32) The role of an independent non-executive director of a listed issuer with a WVR structure must include but is not limited to the functions described in Code provisions A.6.2, A.6.7 and A.6.8 of Appendix 14 to the Hong Kong Listing Rules:
- (i) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
 - (ii) taking the lead where potential conflicts of interests arise;
 - (iii) serving on the audit, compensation, nomination and other governance committees, if invited; and
 - (iv) scrutinizing the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting;

Independent non-executive directors and other non-executive directors, as equal board members, shall give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. Generally, they should also attend general meetings to gain and develop a balanced understanding of the views of the shareholders; and

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Independent non-executive directors and other non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments (Rule 8A.26 of the Hong Kong Listing Rules).

(33) Issuers with a WVR structure must establish a nomination committee that complies with Section A5 of Appendix 14 of these Hong Kong Listing Rules:

- (i) review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy;
- (ii) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;
- (iii) assess the independence of independent non-executive directors; and
- (iv) make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board by including them on the Hong Kong Stock Exchange's website and the issuer's website.

Issuers should provide the nomination committee sufficient resources to perform its duties. Where necessary, the nomination committee should seek independent professional advice, at the issuer's expense, to perform its responsibilities.

Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting:

- (i) the process used for identifying the individual and why the board believes the individual should be elected and the reasons why it considers the individual to be independent;
- (ii) if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, why the board believes the individual would still be able to devote sufficient time to the board;
- (iii) the perspectives, skills and experience that the individual can bring to the board; and

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- (iv) how the individual contributes to diversity of the board (Rule 8A.27 of the Hong Kong Listing Rules);
- (34) The nomination committee established under rule 8A.27 must be chaired by an independent non-executive director. (Rules 8A.28 of the Hong Kong Listing Rules);
- (35) The independent non-executive directors of an issuer with a WVR structure must be subject to retirement by rotation at least once every three years. Independent non-executive directors are eligible for re-appointment at the end of the three year term (Rule 8A.29 of the Hong Kong Listing Rules);
- (36) An issuer with a WVR structure must establish a Corporate Governance Committee with at least the terms of reference set out in Code Provision D.3.1 of Appendix 14 to the Hong Kong Listing Rules, and the following additional terms:
 - (i) develop and review the issuer's policies and practices on corporate governance and make recommendations to the board;
 - (ii) review and monitor the training and continuous professional development of directors and senior management;
 - (iii) review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements;
 - (iv) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
 - (v) review the Company's compliance with the code and disclosure in the Corporate Governance Report (as defined in the Hong Kong Listing Rules);
 - (vi) to review and monitor whether the Company is operated and managed for the benefit of all of its shareholders;
 - (vii) to confirm, on an annual basis, that beneficiaries of weighted voting rights have been members of the listed issuer's board of directors throughout the year and that no matters under Rule 8A.17 of the Hong Kong Listing Rules have occurred during the relevant financial year;
 - (viii) to confirm, on an annual basis, whether or not the beneficiaries of weighted voting rights have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Hong Kong Listing Rules throughout the year;

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- (ix) to review and monitor the management of conflicts of interests and make a recommendation to the board on any matter where there is a potential conflict of interest between the issuer, a subsidiary of the issuer and/or shareholders of the issuer (considered as a group) on the one hand and any beneficiary of weighted voting rights on the other;
 - (x) to review and monitor all risks related to the issuer's WVR structure, including connected transactions between the issuer and/or a subsidiary of the issuer on one hand and any beneficiary of weighted voting rights on the other and make a recommendation to the board on any such transaction;
 - (xi) to make a recommendation to the board as to the appointment or removal of the Compliance Adviser (as defined under the Hong Kong Listing Rules);
 - (xii) to seek to ensure effective and on-going communication between the issuer and its shareholders, particularly with regards to the requirements of Rule 8A.35 of the Hong Kong Listing Rules;
 - (xiii) to report on the work of the nominating and Corporate Governance Committee on at least a half-yearly and annual basis covering all areas of its terms of reference; and
 - (xiv) to disclose, on a comply or explain basis, its recommendations to the board in respect of matters in sub-paragraphs (ix) to (xi) above in the report referred to in sub-paragraph (xiii) above (Rule 8A.30 of the Hong Kong Listing Rules);
- (37) The Corporate Governance Committee must be comprised entirely of independent non-executive directors, one of whom must act as the chairman (Rule 8A.31 of the Hong Kong Listing Rules);
- (38) The Corporate Governance Report produced by the a listed issuer with a WVR structure to comply with Appendix 14 of the Hong Kong Listing Rules must include a summary of the work of the Corporate Governance Committee, with regards to its terms of reference, for the accounting period covered by both the half-yearly and annual report and disclose any significant subsequent events for the period up to the date of publication of the half-yearly and annual report, to the extent possible. (Rule 8A.32 of the Hong Kong Listing Rules);
- (39) Rule 3A.19 is modified to require an issuer with a WVR structure to appoint a Compliance Adviser on a permanent basis commencing on the date of the issuer's initial listing (Rule 8A.33 of the Hong Kong Listing Rules);

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- (40) An issuer must consult with, and if necessary, seek advice from its Compliance Adviser, on a timely and ongoing basis in the circumstances set out in rule 3A.23 and also on any matters related to:
- (i) the WVR structure;
 - (ii) transactions in which any beneficiary of weighted voting rights in the issuer has an interest; and
 - (iii) where there is a potential conflict of interest between the issuer, a subsidiary of the issuer and/or holders of the issuer (considered as a group) on the one hand and any beneficiary of weighted voting rights in the issuer on the other (Rule 8A.34 of the Hong Kong Listing Rules);
- (41) An issuer with a WVR structure must comply with Section E “Communication with Shareholders” of Appendix 14 of the Hong Kong Listing Rules (Rule 8A.35 of the Hong Kong Listing Rules);
- (42) An issuer with a WVR structure must include the warning “A company controlled through weighted voting rights” on the front page of all its listing documents, periodic financial reports, circulars, notifications and announcements required by the Hong Kong Listing Rules, and describe its WVR structure, the issuer’s rationale of such structure and the associated risks for the members prominently in its listing documents and periodic financial reports. This warning statement shall inform prospective investors of the potential risks of investing in an issuer with a WVR structure and that they should make the decision to invest only after due and careful consideration (Rule 8A.37 of the Hong Kong Listing Rules);
- (43) The documents of or evidencing title for the listed equity securities of an issuer with a WVR structure must prominently include the warning “A company controlled through weighted voting rights” (Rule 8A.38 of the Hong Kong Listing Rules);
- (44) An issuer with a WVR structure must disclose in its listing documents and its interim and annual reports:
- (i) identify the beneficiaries of weighted voting rights (Rule 8A.39 of the Hong Kong Listing Rules);
 - (ii) disclose the impact of a potential conversion of WVR shares into ordinary shares on its share capital (Rule 8A.40 of the Hong Kong Listing Rules); and
 - (iii) disclose all circumstances in which the weighted voting rights attached to the Class B Ordinary Shares shall cease (Rule 8A.41 of the Hong Kong Listing Rules).

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Under articles 91(b) and (c) of our existing Articles, Amp Lee Ltd., an entity beneficially owned by Mr. Li, an executive Director and our Founder, is entitled to appoint, remove, and replace at least one director of the Company as well as to appoint the chairman of the Board, subject to certain conditions. To comply with Rule 2.03(4) of the Listing Rule, which requires that all holders of listed securities be treated fairly and equally, the Company will at the First GM put forth a resolution to remove such special rights of Amp Lee Ltd. from the Articles (**“Termination of Founder Entity’s Special Rights”**).

In addition, to further enhance its shareholder protection measures, the Company will at the First GM propose to its shareholders the following amendments to its Articles: (a) lowering the quorum of general meeting (which is not a class meeting) from one-third of all votes attaching to all shares in issue and entitled to vote at such general meeting in the Company as currently provided for under article 67 in the Company’s Articles to 10% of all votes attaching to all shares in issue and entitled to vote at such general meeting in the Company (on a one vote per share basis) (the **“Quorum Requirement”**); (b) where a general meeting is postponed by the directors pursuant to article 74 of the existing Articles, requiring such meeting to be postponed to a specific date, time and place (the **“GM Postponement Requirement”**); (c) removing the Directors’ discretion to, for the purpose of variation of rights attached to any class of shares, treat all the Classes or any two or more Classes as forming one Class if they consider that all such Classes would be affected in the same way by the proposals under consideration under article 19 of the existing Articles, as well as the Directors’ powers to authorize the division of Shares into any number of classes and to determine the relative rights and obligations as between the different classes and to issue such shares with preferred or other rights that may be greater than the rights of the Class A Ordinary Shares under article 9 of the existing Articles as well as making the Directors’ powers to issue preferred shares under article 9 of the existing Articles to be subject to the Articles, compliance with the Listing Rules and the Takeovers Code and the conditions that (x) no new class of shares with voting rights superior to those of Class A Ordinary Shares will be created and (y) any variations in the relative rights as between the different classes will not result in creating new class of shares with voting rights superior to those of Class A Ordinary Shares (**“Amendment of Directors’ Class Right Related Powers”**); and (d) changing the power to appoint the auditor of the Company and fix their remuneration from being that of the Directors to that of the shareholders at annual general meetings unless such power is delegated to the Directors by the shareholders at annual general meeting for that year (the **“Amendment of Auditor Appointment Powers”**, together with the Amendment of Directors’ Class Right Related Powers, Unmet Listing Rules Articles Requirements, the Termination of Founder Entity’s Special Rights, the Quorum Requirement, and the GM Postponement Requirement, the **“Unmet Articles Requirements”**).

At the First GM, the Company will also propose amendments to the Articles to clarify that the Company, its shareholders, directors and officers agree to submit to the jurisdiction of the courts of the Cayman Islands and Hong Kong, to the exclusion of other jurisdictions, to hear, settle and/or determine any dispute, controversy or claim whether arising out of or in connection with the Articles or otherwise. For the avoidance of doubt, the applicable rights of purchasers, holders, and sellers of the Company’s ADSs are not governed by the preceding sentence but are exclusively governed by the applicable deposit agreement pursuant to which

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the ADSs were issued, regardless of whether their dispute, controversy or claim arises out of or in connection with the Articles or otherwise (the “**Forum Selection Clarification**”). For completeness, the Company, the Depositary and holders and beneficial owners of the ADSs each agree that, with regard to any claim or dispute or difference of whatever nature between or involving the parties hereto arising directly or indirectly from the relationship created by the deposit agreement, the Depositary, in its sole discretion, shall be entitled to refer such dispute or difference for final settlement by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in force. Judgment upon the award rendered by the arbitrators may be enforced in any court having jurisdiction thereof. The seat and place of any reference to arbitration shall be New York City, New York, and the procedural law of such arbitration shall be New York law. For the avoidance of doubt this does not preclude holders and beneficial owners of the ADSs from pursuing claims under the Securities Act or the Exchange Act in federal courts. Holders and beneficial owners of the ADSs each irrevocably agree that any legal suit, action or proceeding against or involving the Company or the Depositary, arising out of or based upon the deposit agreement, ADSs, American Depositary Receipts or the transactions contemplated thereby or by virtue of ownership thereof, may only be instituted in a state or federal court in New York, New York and irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding.

As advised by the Company’s legal advisor as to Cayman Islands laws, the incorporation of the following Unmet Articles Requirements will require (a) approvals of both holders of Class B Ordinary Shares and holders of Class A Ordinary Shares in separate class meetings at the First GM in accordance with the Company’s Articles because these requirements would materially adversely vary the rights attached to Class B Ordinary Shares and Class A Ordinary Shares respectively: (i) paragraph 2(1) of Part B of Appendix 13 to the Hong Kong Listing Rules; and (ii) Rules 8A.09, 8A.13, 8A.14, 8A.15, 8A.16, 8A.17, 8A.18(1), 8A.18(2), 8A.19, 8A.22, 8A.23 and 8A.24 of the Hong Kong Listing Rules — a resolution to incorporate these Unmet Articles Requirements (the “**Class-based Resolution**”) will need to be approved at the separate class meetings of holders of Class B Ordinary Shares (the “**Class B Meeting**”) and of Class A Ordinary Shares (the “**Class A Meeting**”). The quorum for the Class B Meeting or Class A Meeting will be one-third of the nominal or par value amount of the respective issued Class B Ordinary Shares or Class A Ordinary Shares, respectively, in accordance with article 19 of the Company’s existing Articles. The Class-based Resolution requires approval by a simple majority of the votes cast by the issued Class B Ordinary Shares and approval by a simple majority of the votes cast by the issued Class A Ordinary Shares pursuant to article 19 of the Company’s existing Articles.

If the Class-based Resolution is passed at both the Class B Meeting and Class A Meeting, at the full shareholders’ meeting where all shareholders may vote as a single class (the “**Full Shareholders’ Meeting**”), the shareholders will be asked to vote on the Class-based Resolution and another resolution to incorporate into the Company’s Articles the Unmet Articles Requirements not covered by the Class-based Resolution and the Forum Selection Clarification (the “**Non-class-based Resolution**”). The quorum for the Full Shareholders’ Meeting will be members holding Shares which carry in aggregate (or representing by proxy)

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not less than one-third of all votes attaching to all Shares in issue and entitled to vote present in person or by proxy pursuant to article 67 of the Company's existing Articles. At the Full Shareholders' Meeting, each of the Class-based Resolution and the Non-class-based Resolution will require approval by not less than two-thirds of the votes cast by such shareholders as, being entitled to do so, voting in person or by proxy or, in the case of corporations, by their duly authorized representatives, in accordance with article 162 of the Company's existing Articles.

If the Class-based Resolution is not approved at either the Class B Meeting or Class A Meeting, then the shareholders at the Full Shareholders' Meeting will only be asked to vote on the Non-class-based Resolution.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the Unmet Articles Requirements, subject to the conditions that:

- (1) at the First GM, the Company will put forth: (i) the Class-based Resolution at the Class B Meeting and the Class A Meeting; and (ii) the Class-based Resolution (if adopted at the Class B Meeting and Class A Meeting) and the Non-class-based Resolution at the Full Shareholders' Meeting (together, the “**Proposed Resolutions**”) to amend its Articles to comply with the Unmet Articles Requirements;
- (2) the WVR Beneficiary will, prior to the Listing, irrevocably undertake to the Company to be present at the First GM (whether in person or by proxy) and any general meeting that may be convened after the Listing and before the First GM, and to vote in favor of the Proposed Resolutions;
- (3) if any of the Proposed Resolutions are not passed at the First GM, until they are all approved by the shareholders, the Company will irrevocably undertake to the Stock Exchange to put forth the Proposed Resolutions that have not been passed at each subsequent annual general meeting, and the WVR Beneficiary will, prior to the Listing, irrevocably undertake to the Company to continue to be present (whether in person or by proxy) and vote in favor of such Proposed Resolutions at each subsequent general meeting at which the Company puts forth such Proposed Resolutions until all Proposed Resolutions are approved by the shareholders. The WVR Beneficiary will further undertake to the Company to be present at any general meeting after the Listing until all Proposed Resolutions are approved by shareholders;
- (4) each of Inspired Elite Investments Limited (a wholly-owned subsidiary of Meituan), Mr. Shen Yanan, Mr. Li Tie and Mr. Fan Zheng and Mr. Wang Xing (together, the “**Undertaking Shareholders**”) will, prior to the Listing, irrevocably undertake to the Company to, and if any Class A Ordinary Share is held by intermediaries held or controlled by him, procure such intermediaries to be present at the Class A Meeting and the Full Shareholders' Meeting (whether in person or by proxy) and to

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vote in favor of the Proposed Resolutions and that, if any of the Proposed Resolutions are not passed at the First GM, until they are all approved, it or he or the said intermediaries will continue to attend (whether in person or by proxy) each subsequent class meeting of the holders of the Class A Ordinary Shares and general meeting at which the Company puts forth the Proposed Resolutions and vote in favor of such Proposed Resolutions;

- (5) the Company will issue a press release announcing its support publicly for the Proposed Resolutions each year after the Listing until all the Proposed Resolutions are adopted;
- (6) the Company, the WVR Beneficiary and each of the other Directors in their individual capacity as a Director of the Company will, prior to the Listing, irrevocably undertake to the Stock Exchange that it will comply with the Unmet Listing Rules Articles Requirements, the Termination of Founder Entity's Special Rights, the GM Postponement Requirement, the Amendment of Directors' Class Right Related Powers, the Amendment of Auditor Appointment Powers and the Forum Selection Clarification in full (the **"Undertaking for Interim Compliance"**) upon the Listing and before its existing Articles are formally amended to incorporate the Unmet Articles Requirements, except for:
 - paragraph 2(1) of Part B of Appendix 13 such that, prior to the Company's Articles being amended, the threshold for passing a resolution in a separate class meeting will be approval by a simple majority of the votes cast by the issued shares of that class pursuant to article 19 of the Company's existing Articles;
 - Rules 8A.24(1) and (2) such that, prior to the Company's Articles being amended, weighted voting rights will apply in connection with passing the Proposed Resolutions; and
 - paragraph 1 of Part B of Appendix 13 such that, prior to the Company's Articles being amended, the threshold for passing a special resolution for amendments to the Company's Articles will be approval by members holding not less than two-thirds of the voting rights of those present and voting in person or by proxy at the general meeting in accordance with article 162 of the Company's existing Articles.

For the avoidance of doubt, the above exceptions are only applicable to the passing of the Proposed Resolutions, and the Company shall irrevocably undertake to the Stock Exchange to comply with paragraphs 1 and 2(1) of Part B of Appendix 13 and Rules 8A.24(1) and (2) for passing any resolution at a separate class meeting and any special resolution after the Listing (other than the Proposed Resolutions) under

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the Undertaking for Interim Compliance, and if any of the Class-based Resolution is not passed at the First GM, the Undertaking for Interim Compliance will remain valid until the Class-based Resolution is passed;

(7) the WVR Beneficiary will, prior to the Listing, irrevocably undertake to the Company and the Stock Exchange that:

- he will procure the Company to give effect to the Undertaking for Interim Compliance upon the Listing and before its existing Articles are formally amended;
- in the event any Class B Ordinary Share is to be transferred to an affiliate (as defined in the Articles) of the WVR Beneficiary that is not a director holding vehicle after the Listing but before the existing Articles are formally amended, he will convert such Class B Ordinary Shares into Class A Ordinary Shares by delivering a written notice to the Company in accordance with the Articles and only transfer the resultant Class A Ordinary Shares to such Affiliate;
- after the Listing but before the existing Articles are formally amended, he will not effect any change in his holding structure of any Class B Ordinary Shares unless and until the Stock Exchange has approved such change; and
- he will procure Amp Lee Ltd. to, prior to the Listing, deliver a written conversion notice to the Company in accordance with article 13 of the existing Articles that all of the Class B Ordinary Shares it holds shall be converted to Class A Ordinary Shares on a one-for-one basis immediately upon any event listed in Rule 8A.17 of the Listing Rules occurring after the Listing and before the Articles are formally amended; such conversion notice shall expire immediately upon the Articles are formally amended;

A director holding vehicle, for the purpose of the above paragraph, means (a) a partnership of which the WVR Beneficiary is a partner and the terms of which must expressly specify that the voting rights attached to any and all of the Class B Ordinary Shares held by such partnership are solely dictated by the WVR Beneficiary; (b) a trust of which the WVR Beneficiary is a beneficiary and that meets the following conditions: (i) the WVR Beneficiary must in substance retain an element of control of the trust and any immediate holding companies of, or, if not permitted in the relevant tax jurisdiction, retain a beneficial interest in any and all of the Class B Ordinary Shares held by such trust; and (ii) the purpose of the trust must be for estate planning and/or tax planning purposes; or (c) a private company or other vehicle wholly-owned and wholly controlled by the WVR Beneficiary or by a trust referred to in paragraph (b) above;

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- (8) if any holders of any ADSs fail to give valid or timely voting instructions to the Depositary with respect of the Proposed Resolutions, the Company will exercise any discretionary proxy it may have under the deposit agreement for the ADSs to vote the underlying Ordinary Class A Shares represented by such ADSs in favor of the Proposed Resolutions at any general meetings; and
- (9) the Company remains listed on the Nasdaq.

The Company's legal advisor as to the laws of the Cayman Islands confirms that the Undertaking for Interim Compliance will not violate the laws and regulations of the Cayman Islands, and the Company confirms that, having consulted its other legal advisors, the Undertaking for Interim Compliance will also not violate other laws and regulations applicable to the Company.

The WVR Beneficiary acknowledged and agreed that our Shareholders may rely on the WVR Beneficiary's undertakings described in paragraphs (2), (3) and (7) above (the "**WVR Beneficiary's Articles Undertaking**") in acquiring and holding their Shares and that such undertakings are intended to confer a benefit on the Company and all existing and future Shareholders and may be enforced by the Company and/or any such Shareholder against the WVR Beneficiary.

The WVR Beneficiary's Articles Undertaking shall automatically terminate upon the earliest of (i) the proposed amendments to the Articles described in this sub-section headed "Waivers and Exemptions—Requirements relating to the Articles of Association of the Company" have become effective, (ii) the date of delisting of the Company from the Stock Exchange; and (iii) the date on which the WVR Beneficiary ceases to be a beneficiary of weighted voting rights in the Company. For the avoidance of doubt, the termination of the Beneficiary's Articles Undertaking shall not affect any rights, remedies, obligations or liabilities of the Company and/or any Shareholder and/or the WVR Beneficiary himself that have accrued up to the date of termination, including the right to claim damages and/or apply for any injunction in respect of any breach of the WVR Beneficiary's Articles Undertaking which existed at or before the date of termination. The WVR Beneficiary's Articles Undertaking shall be governed by the laws of the Hong Kong and all matters, claims or disputes arising out of the WVR Beneficiary's Articles Undertaking shall be subject to the exclusive jurisdiction of the courts of Hong Kong.

Assuming the Over-allotment Option is not exercised, no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, and without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans, the WVR Beneficiary and the Undertaking Shareholders will, immediately upon the Listing, beneficially own 355,812,080 Class B Ordinary Shares and 108,557,400 CEO Award Shares (which are Class A Ordinary Shares with one vote per share) and 507,786,946 Class A Ordinary Shares (including any Class A Ordinary Shares underlying any ADSs they held) respectively,

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representing in aggregate (a) 36.34% of the total issued Class A Ordinary Shares and 32.67% of the total voting rights of the Class A Ordinary Shares voting as a separate class (without taking into account the voting rights of the CEO Award Shares assuming none of the Performance Conditions is met and no Award Premium is paid), (b) 100% of the total issued Class B Ordinary Shares and 100% of the total voting rights of the Class B Ordinary Shares voting as a separate class, and (c) approximately 79.53% of the voting rights in the Company (on weighted voting rights basis); and the Depositary will, immediately upon the Listing, hold 828,828,284 Class A Ordinary Shares underlying the ADSs (excluding those represented by the ADSs held by the Undertaking Shareholders which have already been counted in the foregoing), representing (x) 48.87% of the total issued Class A Ordinary Shares and 51.20% of the total voting rights of the Class A Ordinary Shares voting as a separate class (without taking into account the voting rights of the CEO Award Shares assuming none of the Performance Conditions is met and no Award Premium is paid) and (y) approximately 15.57% of the voting rights in the Company (on weighted voting rights basis, without taking into account the voting rights of the CEO Award Shares assuming none of the Performance Conditions is met and no Award Premium is paid).

Accordingly, the undertakings of the WVR Beneficiary and the Undertaking Shareholders to be present at the First GM (whether in person or by proxy) as well as the Company's undertaking to exercise any discretionary proxy it may have under the deposit agreement to vote the underlying Ordinary Class A Shares of the relevant ADSs in favor of the Proposed Resolutions at any general meeting will be able to ensure a quorum at the Class A Meeting, the Class B Meeting and the Full Shareholders' Meeting. However, despite the undertakings of the WVR Beneficiary and the Undertaking Shareholders to vote in favor of the Proposed Resolutions as well as the Company's undertaking to exercise any discretionary proxy it may have under the deposit agreement to vote the underlying Ordinary Class A Shares of the relevant ADSs in favor of the Proposed Resolutions at any general meeting will ensure that they will be adopted at the Class B Meeting and the Full Shareholders' Meeting, there is no guarantee that the Class-based Resolution will be passed at the Class A Meeting. As the Company has not, since its listing on the Nasdaq, held a general meeting, it is uncertain as to whether the Class-based Resolution will be approved with sufficient support from the Company's shareholders at the Class A Meeting.

For the avoidance of doubt, even though article 19 of the existing Articles provides that the rights attached to any such class of Shares may, subject to any rights or restrictions for the time being attached to any class of Shares, only be materially adversely varied either (a) with the consent in writing of the holders of fifty percent of all of the issued Shares of that class or (b) with the sanction of an ordinary resolution passed at a separate meeting of the holders of the Shares of that class, the Company expects to adopt the approach in (b) rather than in (a) to seek the relevant shareholders' approval for the Class-based Resolutions at a general meeting. Also, even though under the existing Articles a special resolution can be (x) passed by not less than two-thirds of the votes cast by such shareholders as, being entitled to do so, vote in person or, where proxies are allowed, by proxy, or, in the case of corporations, by their duly authorized representatives, at a general meeting of the Company, or (y) approved in writing by all of the shareholders entitled to vote at a general meeting of the Company in one

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or more instruments each signed by one or more of the shareholders, the Company expects to adopt the approach in (x) rather than in (y) to seek the shareholders' approval for the Class-based Resolution and the Non-class-based Resolution at a general meeting. This is because, as a public company, it would involve heavy administrative work for the Company and will be practically impossible for the Company to collect written consents from a sufficiently large number of its public shareholders.

After the Listing, the Company will in its annual reports confirm whether it has, in the preceding financial year, complied with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules to the extent required by Chapter 8A of the Hong Kong Listing Rules.

In the event of any failure to adhere to the requirements of Chapter 8A of the Listing Rules as determined by the Stock Exchange, the Stock Exchange may, as it considers necessary for the protection of the investors or the maintenance of an orderly market and in addition to any other action that the Stock Exchange considers appropriate under the Listing Rules, exercise absolute discretion to:

- (1) direct a trading halt or suspend dealings of any securities of the Company or cancel the listing of any securities of the Company as set out in Rule 6.01 of the Listing Rules;
- (2) impose the disciplinary sanctions set out in Rule 2A.09 of the Listing Rules against the parties set out in Rule 2A.10 of the Listing Rules;
- (3) withhold (a) approval for an application for the listing of securities; and/or (b) clearance for the issuance of a circular to the Company's shareholders unless and until all necessary steps have been taken to address the non-compliance as directed by the Stock Exchange to its satisfaction.

USE OF U.S. GAAP

Rules 4.10 and 4.11 of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules require the Company to prepare its financial statements in the prospectus and the subsequent financial reports issued after listing to be in conformity with: (a) Hong Kong Financial Reporting Standards ("**HKFRS**"); (b) IFRS; or (c) China Accounting Standards for Business Enterprises in the case of companies incorporated in China. Rule 19.12 requires an accountant's report of an overseas issuer to have been audited to a standard comparable to that required in Hong Kong. Rule 19.14 states that where the Stock Exchange allows a report to be drawn up otherwise than in conformity with HKFRS or IFRS, the report will be required to conform with accounting standards acceptable to the Stock Exchange. In such cases, the Stock Exchange will normally require the report to contain a statement of the financial effect of the material differences (if any) from either of the above accounting standards.

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As a company listed on the Nasdaq, the Company uses Generally Accepted Accounting Principles in the U.S., or the U.S. GAAP, and corresponding audit standards for the filing of its financial statements with the SEC as determined by the United States Public Company Accounting Oversight Board. U.S. GAAP is well recognized and accepted by the international investment community, particularly among technology companies, and significant progress has been made in the convergence between U.S. GAAP and IFRS. Additionally, we note that it might lead to confusion among the Company's investors and shareholders if the Company was required to adopt different accounting standards for its disclosures in Hong Kong from those in the U.S. Aligning the accountings standards used for disclosures in both markets will alleviate any such confusion.

Our Company has applied to the Hong Kong Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 4.10 and 4.11 of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules to allow the financial statements and accountants' report in the listing document to be prepared based on U.S. GAAP, subject to the following conditions:

- (a) the Company will include (i) a description of the relevant key differences between U.S. GAAP and IFRS; and (ii) a statement showing the financial effect of any material differences between the financial statements during the track record period prepared using U.S. GAAP and IFRS ("**Reconciliation Statement**") in the accountants' report with a view to enabling investors to appraise the impact of the two accounting standards on the Company's financial statements; such Reconciliation Statement is audited by external accountants;
- (b) the Company will include a similar Reconciliation Statement mentioned in paragraph (a) above for its interim and annual reports issued after its Listing on the Stock Exchange; such Reconciliation Statements in its annual reports will be audited by external accountants and the Reconciliation Statements in its interim reports will be reviewed by its external accountant in accordance with a standard that is at least equivalent to International Standard on Assurance Engagements 3000 or Hong Kong Standard on Assurance Engagements 3000;
- (c) the Company will comply with Rules 4.08, 19.12, 19.14 and note 2.6 of paragraph 2 of Appendix 16 to the Listing Rules;
- (d) the Company will use Hong Kong Financial Reporting Standards or IFRS in the preparation of the Company's financial statements in the event that the Company is no longer listed in the U.S. or has no obligation to make financial disclosure in the U.S.; and
- (e) this waiver request will not be applied generally and is based on the specific circumstances of the Company.

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DEALINGS IN SHARES PRIOR TO LISTING

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the “**Relevant Period**”).

The Company had over 60 subsidiaries and Consolidated Affiliated Entities as of March 31, 2021, and its ADSs are widely held, publicly traded and listed on the Nasdaq. The Company considers that it is therefore not in a position to control the investment decisions of its shareholders or the investing public in the U.S.

Solely based on public filings with the SEC as of the Latest Practicable Date, other than Mr. Li Xiang (the Company’s Controlling Shareholder and an executive Director), holding Shares of the Company through a number of intermediaries companies, there were no shareholders who controlled more than 10% of the voting rights of the Company.

For a company whose securities are listed and traded in the U.S., the Company notes that it is a common practice for substantial shareholders and corporate insiders, including directors, executives and other members of management, to set up trading plans that meet the requirements of Rule 10b5-1 under the U.S. Exchange Act (the “**Rule 10b5-1 Plan(s)**”) to buy or sell the company’s securities. A Rule 10b5-1 Plan is a written plan, set up with a broker, to trade securities that (a) is entered into at a time when the person trading the securities is not aware of any material non-public information; (b) specifies the amount of securities to be purchased or sold and the price at which and the date on which the securities were to be purchased or sold; and (c) does not allow the person trading the securities to exercise any subsequent influence over how, when, or whether to effect purchases or sales. Persons who trade securities pursuant to a Rule 10b5-1 Plan have an affirmative defense against insider trading allegations under U.S. securities law.

On the basis of the above, the Company considers that the following categories of persons (collectively, the “**Permitted Persons**”) should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

- (a) Mr. Li Xiang, the Company’s Controlling Shareholder, Founder, Chairman of the Board and Chief Executive Officer, in respect of his dealings pursuant to any Rule 10b5-1 Plans that have been set up prior to the Relevant Period (“**Category 1**”);
- (b) the Company’s Directors other than Mr. Li Xiang, and the directors and chief executives of its significant subsidiaries and Consolidated Affiliated Entities (that are, subsidiaries and Consolidated Affiliated Entities that are not “insignificant subsidiaries” as defined under the Listing Rules, “**Significant Subsidiaries**”), in respect of (i) their respective use of the Shares as security (including, for the avoidance of doubt, using their respective shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions

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entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period and (ii) their respective dealings pursuant to Rule 10b5-1 Plans that have been set up prior to the Relevant Period (“**Category 2**”);

- (c) directors, chief executives and substantial shareholders of the Company’s insignificant subsidiaries (as defined under the Listing Rules) and their close associates (“**Category 3**”); and
- (d) any other person (whether or not an existing Shareholder) who may, as a result of dealings, become the Company’s substantial shareholder and who is not its director or chief executive, or a director or chief executive of the Company’s subsidiaries and Consolidated Affiliated Entities, or their close associates (“**Category 4**”).

For the avoidance of doubt:

- (a) as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and
- (b) persons in Category 1 and Category 2 who (i) use their respective Shares other than as described in this section headed “Dealings in Shares prior to Listing” or (ii) who are not dealing in the Company’s securities according to Rule 10b5-1 Plans set up before the Relevant Period are subject to the restrictions under Rule 9.09(b) of the Hong Kong Listing Rules.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules to be granted on the following conditions:

- (a) Categories 1 and 2 of the Permitted Persons who entered into Rule 10b5-1 Plans have no discretion over dealings in the Company’s ADSs after the plans have been entered into. Where Category 2 of the Permitted Persons use the Shares as security, other than those set out in the waiver above, there will be no change in the beneficial ownership of the Shares at the time of entering into the relevant transactions during the Relevant Period;

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- (b) Categories 3 and 4 of the Permitted Persons do not have any influence over the Global Offering and do not possess any non-public inside information of the Company given that such persons are not in a position with access to information that is considered material to the Company taken as a whole. Given the large number of the Company's subsidiaries and Consolidated Affiliated Entities and its vast ADS holder base, the Company and its management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in its ADSs;
- (c) the Company will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the U.S. and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any non-public inside information of which the Company is aware and will not have any influence over the Global Offering;
- (d) the Company will notify the Hong Kong Stock Exchange of any breaches of the dealing restrictions by any of its core connected persons during the Relevant Period when it becomes aware of the same other than dealings by the core connected persons who are Permitted Persons within the permitted scopes set out above; and
- (e) prior to the Listing Date, other than within the permitted scopes set out above, the Company's directors and chief executive and the directors and chief executives of its Significant Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period provided that such prohibited dealing in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of incentive and non-statutory options, restricted shares, dividend equivalents, and share payments under the Group's share incentive plans.

The Company believes that the circumstances relating to this waiver align with those set out in the Hong Kong Stock Exchange's Guidance Letter HKEX-GL42-12 and the grant of this waiver will not prejudice the interests of potential investors.

SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS

Rule 2.03(2) of the Hong Kong Listing Rules provides that the issue and marketing of securities should be conducted in a fair and orderly manner.

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought that are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 are fulfilled.

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The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows:

- (a) that no securities are offered to the purchasers on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and
- (b) that the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.

The Hong Kong Stock Exchange's Guidance Letter HKEX-GL85-16 provides that the Hong Kong Stock Exchange will consider granting a waiver from Rule 10.04 and consent pursuant to paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules allowing an applicant's existing shareholders or their close associates to participate in an initial public offering if any actual or perceived preferential treatment arising from their ability to influence the applicant during the allocation process can be addressed.

The Company has been listed on the Nasdaq since July 2020 and has a wide and diverse shareholder base. There is a robust level of trade in the Company's securities, with significant daily trading volume resulting in daily changes to its existing shareholders. The Company is not in a position to prevent any person or entity from acquiring its listed securities prior to the allocation of shares in connection with the Global Offering. It would therefore be unduly burdensome for the Company to seek the prior consent of the Hong Kong Stock Exchange for each of its existing shareholders or their close associates who subscribe for Offer Shares in the Global Offering.

The Company confirms that any person (whether or not an existing Shareholder of the Company) who may, as a result of dealings, become the Company's Shareholder and who is not a director or chief executive of the Company or its subsidiaries and Consolidated Affiliated Entities, or any of their close associates (the "**Permitted Existing Shareholders**"), has no influence over the Global Offering and is not in possession of any non-public inside information and are effectively in the same position as any other public investors of the Company.

Solely based on public filings with the SEC available as of December 31, 2020, other than Inspired Elite Investments Limited (a wholly-owned subsidiary of Meituan), the Company had no shareholder who was not a director and who controlled 5% or more of the Company's voting rights.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules in respect of the restriction on each Permitted Existing Shareholder, subject to the following conditions:

- (a) each Permitted Existing Shareholder is interested in less than 5% of the Company's voting rights immediately before the Listing;

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- (b) each Permitted Existing Shareholder is neither a director nor member of the senior management of the Company or its subsidiaries and Consolidated Affiliated Entities or any of their close associates;
- (c) the Permitted Existing Shareholders do not have the power to appoint directors of, or any other special rights in, the Company;
- (d) the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and placees in the Global Offering;
- (e) the Permitted Existing Shareholders will be subject to the same book-building and allocation process as other investors in the Global Offering;
- (f) no preferential treatment will be given to the Permitted Existing Shareholders in the allocation process by virtue of their relationship with the Company. Each of the Company, the Joint Bookrunners and the Joint Sponsors (based on its discussions with the Company, the Joint Bookrunners and the Joint Sponsors and the confirmations required to be submitted to the Stock Exchange by the Company, the Joint Bookrunners and the Joint Sponsors), will or have confirmed to the Stock Exchange in writing that, to the best of its knowledge and belief, that no preferential treatment has been, nor will be, given to the Permitted Existing Shareholders as a placee in the International Offering by virtue of their relationship with the Company; and
- (g) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved.

The Company expects to satisfy all the conditions set out in paragraph 4.20 of Guidance Letter HKEX-GL85-16 so that no actual or perceived preference will be given to the Permitted Existing Shareholders due to their existing shareholdings in the Company.

Allocation to the Permitted Existing Shareholders will not be disclosed in the Company's allotment results announcement (other than to the extent that such Permitted Existing Shareholders subscribe for shares as cornerstone investors) unless such Permitted Existing Shareholders are interested in 5% or more of the issued share capital of the Company after the Global Offering as disclosed in any public filings with the SEC, as it would be unduly burdensome for the Company to disclose such information given that there is no requirement to disclose interests in equity securities under the U.S. Exchange Act unless the beneficial ownership of such person (including directors and officers of the company concerned) reaches more than 5% of equity securities registered under Section 12 of the U.S. Exchange Act.

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WAIVER AND EXEMPTION IN RELATION TO THE 2019 PLAN AND 2020 PLAN

The Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance prescribes certain disclosure requirements in relation to the share options granted by the Company (the “**Share Option Disclosure Requirements**”):

- (a) Rule 17.02(1)(b) of the Listing Rules stipulates that all the terms of a scheme must be clearly set out in this prospectus. The Company is also required to disclose in this prospectus full details of all outstanding options and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding options.
- (b) Paragraph 27 of Appendix 1A to the Listing Rules requires the Company to set out in this prospectus particulars of any capital of any member of the Group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.
- (c) Under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the number, description and amount of any shares in or debentures of the company which any person has, or is entitled to be given, an option to subscribe for, together with the particulars of the option, that is to say, (a) the period during which it is exercisable; (b) the price to be paid for shares or debentures subscribed for under it; (c) the consideration (if any) given or to be given for it or for the right to it; and (d) the names and addresses of the persons to whom it or the right to it was given or, if given to existing shareholders or debenture holders as such, the relevant shares or debentures must be specified in the prospectus.

As of the Latest Practicable Date, our Company had granted outstanding options under the 2019 Plan and the 2020 Plan (the “**Relevant Plans**”) to 2,107 grantees (including Directors and senior management of the Company and other employees of our Group), to subscribe for an aggregate of 91,177,078 Class A Ordinary Shares. As of the Latest Practicable Date, among the outstanding options, 27,000,000 were held by Directors, 12,000,000 were held by members of the senior management of the Company (who are not Directors) and 52,177,078 were held by employees of our Group (who are not Directors, members of senior management or connected persons of the Company). The Class A Ordinary Shares underlying the granted options represent approximately 4.44% of the total number of Shares in issue immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes). No further options will be granted pursuant to the Relevant Plans between the Latest Practicable Date and the Listing. For further details of our Share Incentive Plans, see the section headed “Statutory and general information—Share Incentive Plans” in Appendix IV to this prospectus.

WAIVERS AND EXEMPTIONS

We have applied to (i) the Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules and (ii) the SFC for an exemption from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the disclosure of certain details relating to the options and certain grantees in this prospectus on the ground that the waiver and the exemption will not prejudice the interest of the investing public and strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons, among others:

- (a) as of the Latest Practicable Date, we had granted outstanding options to a total of 2,107 grantees under the Relevant Plans to acquire an aggregate of 91,177,078 Class A Ordinary Shares, representing approximately 4.44% of the total number of Shares in issue immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes). The grantees under the Relevant Plans include two Directors, two members of the senior management (who are not Directors) and 2,103 employees of our Group (who are not Directors, members of senior management or connected persons of our Company);
- (b) our Directors consider that it would be unduly burdensome to disclose in the prospectus full details of all the options granted by us to each of the grantees, which would significantly increase the cost and time required for information compilation and prospectus preparation for strict compliance with such disclosure requirements. For example, we would need to collect and verify the addresses of over two thousand grantees to meet the disclosure requirement. Further, the disclosure of the personal details of each grantee, including their names, addresses and the number of options granted, may require obtaining consent from the grantees in order to comply with personal data privacy laws and principles and it would be unduly burdensome for our Company to obtain such consents given the number of grantees;
- (c) material information on the options has been disclosed in the prospectus to provide prospective investors with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the options in making their investment decision, and such information includes:
 - (i) a summary of the latest terms of the Relevant Plans;
 - (ii) the aggregate number of Class A Ordinary Shares subject to the options and the percentage of our Shares of which such number represents;

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- (iii) the dilutive effect and the impact on earnings per Share upon full exercise of the options immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes);
- (iv) full details of the options granted to Directors and members of the senior management and connected persons (if any) of our Company, on an individual basis, are disclosed in the prospectus, and such details include all the particulars required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part 1 of the Third Schedule to the Companies Ordinance;
- (v) with respect to the options granted to other grantees (other than those referred to in (iv) above), the following details will be disclosed in the prospectus, including the aggregate number of such grantees and the number of Class A Ordinary Shares subject to the options, the consideration paid for the grant of the options and the exercise period and the exercise price for the options; and
- (vi) the particulars of the waiver and exemption granted by the Stock Exchange and the SFC, respectively;

the above disclosure is consistent with the conditions ordinarily expected by the Stock Exchange in similar circumstances as set out in Guidance Letter HKEx-GL11-09 issued in July 2009 and updated in March 2014 by the Stock Exchange.

- (d) the 2,103 grantees who are not Directors, members of the senior management or connected persons of the Company, have been granted options under the Relevant Plans to acquire an aggregate of 52,177,078 Class A Ordinary Shares, which is not material in the circumstances of our Company, and the exercise in full of such options will not cause any material adverse change in the financial position of our Company;
- (e) our Directors consider that non-compliance with the above disclosure requirements would not prevent our Company from providing potential investors with sufficient information for an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Group. Strict adherence to the disclosure requirements, including to disclose the names, addresses, and entitlements on an individual basis of over two thousand grantees without reflecting the materiality of the information does not provide any additional meaningful information to the investing public; and

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- (f) a full list of all the grantees containing all details as required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule will be made available for public inspection in accordance with the section headed “Appendix V—Documents delivered to the Registrar of Companies in Hong Kong and available for inspection—Documents available for inspection” in this prospectus.

In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application and the non-disclosure of the required information will not prejudice the interests of the investing public.

The Stock Exchange has granted to our Company a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules with respect to the options granted under the Relevant Plans on the condition that:

- (a) on an individual basis, full details of the options granted under the Relevant Plans to each of the Directors and the senior management and connected persons (if any) of the Company, will be disclosed in the section headed “Statutory and General Information—Share Incentive Plans” in Appendix IV as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted under the Relevant Plans to other grantees (other than those set out in (a) above), disclosure will be made on an aggregate basis, including (1) the aggregate number of the grantees other than those set out in (a) above and the number of Shares subject to the options granted to them under the Relevant Plans, (2) the consideration paid for the grant of the options under the Relevant Plans, and (3) the exercise period and the exercise price for the options granted under the Relevant Plans;
- (c) the aggregate number of Class A Ordinary Shares underlying the outstanding options granted under the Relevant Plans and the percentage of the Company’s total issued share capital represented by such number of Shares as of the Latest Practicable Date will be disclosed in this prospectus;
- (d) the dilutive effect and impact on earnings per Share upon the full exercise of the options under the Relevant Plans will be disclosed in the section headed “Statutory and General Information—Share Incentive Plans” in Appendix IV;
- (e) a summary of the major terms of the Relevant Plans will be disclosed in the section headed “Statutory and General Information—Share Incentive Plans” in Appendix IV;

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- (f) the particulars of this waiver will be disclosed in this prospectus;
- (g) a list of all the grantees (including those persons whose details have already been disclosed) containing all the particulars as required under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A of the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance will be made available for public inspection in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in Appendix V; and
- (h) the grant of certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting the Company from the disclosure requirements provided in paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

The SFC has agreed to grant to our Company the certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance with respect to the options granted under the Relevant Plans exempting the Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that:

- (a) full details of the options under the Relevant Plans to each of the Directors and the senior management and connected persons (if any) of the Company will be disclosed in the section headed “Statutory and General Information—Share Incentive Plans” in Appendix IV as required by paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted under the Relevant Plans to grantees other than those referred to in (a) above, disclosure will be made on an aggregate basis, including (1) the aggregate number of the grantees and the number of Shares subject to the options granted to them under the Relevant Plans, (2) the consideration paid for the grant of the options under the Relevant Plans, and (3) the exercise period and the exercise price for the options granted under the Relevant Plans; and
- (c) a full list of all the grantees (including the persons referred to in (a) above) who have been granted options to subscribe for shares under the Relevant Plans, containing all the particulars as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be made available for public inspection in accordance with the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in Appendix V; and
- (d) the particulars of this exemption will be disclosed in this prospectus and that this prospectus will be issued on or before August 3, 2021.

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Further details of the Relevant Plans are set forth in the section headed “Statutory and General Information—Share Incentive Plans” in Appendix IV.

EXERCISE PRICE OF OPTIONS TO BE GRANTED PURSUANT TO THE 2019 PLAN AND THE 2020 PLAN AFTER THE LISTING

Note (1) to Rule 17.03(9) of the Listing Rules states that the exercise price of an option must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant.

Since the listing of the Company’s ADSs on the Nasdaq in July 2020, it has been the Company’s practice to issue options exercisable into ADSs (each of which represents two underlying Class A Ordinary Shares) under the 2019 Plan and the 2020 Plan and the Company will continue to issue options exercisable into ADSs after the Listing. By definition, ADSs are denominated in U.S. dollars, and the exercise price for options with respect to ADSs will necessarily be presented in U.S. dollars. Pursuant to the waiver from strict compliance with Rules 4.10 and 4.11 of, and Note 2.1 to Paragraph 2 of Appendix 16 of the Listing Rules described under the sub-section headed “—Use of U.S. GAAP” above, the Company will continue to prepare its accounts based on U.S. GAAP after the Listing in line with its established practice of granting options with exercise prices and RSUs with grant values denominated in U.S. dollars and tied to the market price of its Nasdaq-traded ADSs.

On the basis that (a) the method for determining the exercise price of the options based on the market price of ADSs substantially replicates the requirement in Note (1) to Rule 17.03(9) of the Listing Rules, and (b) it has been the Company’s practice to issue options exercisable into ADSs with exercise prices denominated in U.S. dollars, and the Company will continue to grant options under the 2019 Plan and the 2020 Plan with exercise prices based on the market price of its ADSs which are denominated in U.S. dollars after the Listing, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules such that the Company be able to determine the exercise price for grants under its share option schemes based on the higher of: (i) the per-share closing price of the Company’s ADSs on the Nasdaq on the date of grant, which must be a Nasdaq trading day; and (ii) the average per-share closing price of the Company’s ADSs on the Nasdaq for the five Nasdaq trading days immediately preceding the date of grant, subject to the condition that the Company shall not issue any share options with an exercise price denominated in Hong Kong dollars unless such exercise price complies with Note (1) to Rule 17.03(9) of the Listing Rules.

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PARTICULARS OF DEBENTURE HOLDERS

In April 2021, we issued the 2028 Notes, namely, the convertible senior notes in an aggregate principal amount of US\$862.5 million due 2028 with an interest rate of 0.25% per annum. The 2028 Notes may be converted, at an initial conversion rate of 35.2818 ADSs per US\$1,000 principal amount (which represents an initial conversion price of US\$28.34 per ADS) at each holder's option at any time on or after November 1, 2027, until the close of business on the second scheduled trading day immediately preceding the maturity date of May 1, 2028.

The 2028 Notes were placed to a wide range of institutional investors (qualified institutional buyers) in a Rule 144A offering. The 2028 Notes are dematerialized (intermediated) securities cleared via Depositary Trust Company in a regular way and traded in the 144A market via brokers. Cede & Co., as nominee of Depositary Trust Company, is a holder of record of the 2028 Notes. The trustee of the 2028 Notes does not keep track of the current beneficial owners of the 2028 Notes (i.e. the QIBs who trade the notes via brokers) on an ongoing basis. The Company is not in a position to confirm who hold these debt instruments at any point in time—it would be unduly burdensome for the Company to ascertain information relating to the names and addresses of the beneficial owners of the convertible notes.

The Company has applied for, and the SFC has granted, an exemption from strict compliance with paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance to the extent not strictly met by the current disclosure in this prospectus on the following grounds:

- (a) since the identities of the ultimate noteholders are practically unavailable and given the expected frequent changes of the identities of the ultimate noteholders, it would be practically impossible for the Company to disclose the names and addresses of such ultimate noteholders (which are independent third parties). The disclosure, even if it can be made, would also not provide meaningful information to the potential investors of our Company;
- (b) strict compliance with the applicable disclosure requirements under Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance for each ultimate noteholder on an individual basis (including the disclosure of names and addresses of all noteholders) in this prospectus will be unduly burdensome on the Company in light of the difficulty in identifying the ultimate noteholders and the potentially significant increase in cost and time for ascertaining the information;
- (c) material information relating to the 2028 Notes has been disclosed in the sections headed “Summary—Recent Developments—Issuance of the 2028 Notes” and “History, Reorganization and Corporate Structure—Convertibles Notes”, including but not limited to the principal amount, conversion rate, and the maximum number of ADS that can be converted from the 2028 Notes and the potential dilution effect

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upon full conversion of the 2028 Notes, the maturity date, the annual coupon rate, the conversion mechanism and the noteholders' rights to require our Company to repurchase the 2028 Notes. Accordingly, information that should be reasonably necessary for potential investors to make an informed assessment of the Company in their investment decision process has been included in this prospectus; and

- (d) non-compliance with the abovementioned disclosure requirements under Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance would not prevent the Company from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of the Company and the non-disclosure of such information will not prejudice the interests of the investing public.

We confirm that all information necessary for the public to make an informed assessment of business, asset and liability, financial position, trading position, management and prospect of the Group has been disclosed in this prospectus, and that, as such, the granting of the exemption from strict compliance with the relevant content requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance will not prejudice the interest of the investing public.

The SFC has granted an exemption referred to above on the following conditions:

- (a) in respect of the 2028 Notes issued by our Company, the following details are fully disclosed in this prospectus:
- the total principal amounts of the 2028 Notes;
 - the maximum number of Class A Ordinary Shares to be converted from the 2028 Notes;
 - the conversion rates of the 2028 Notes; and
 - the conversion periods of the 2028 Notes;
- (b) the potential dilution effect upon full conversion of the 2028 Notes is set out in this prospectus;
- (c) the particulars of such exemption are set out in this prospectus; and
- (d) this prospectus will be issued on or before August 3, 2021.

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TRADING PERIOD

Rule 8.05 of the Listing Rules requires a new applicant to have a trading record of not less than three financial years. Guidance Letter HKEX-GL45-12 provides that the trading record of a new applicant refers to the record of its trading activities, including its revenue, expenses, cash flows, assets and liabilities arising from its core businesses. Our Company started to generate revenue for sale of vehicles in 2019.

Paragraph 4.3 of GL45-12 provides that the Stock Exchange will accept a shorter trading record period on specific circumstances as per Rules 8.05A and 8.05B of the Listing Rules. The circumstances specified under Rule 8.05A of the Listing Rules are: (i) the directors and management of the new applicant have sufficient and satisfactory experience of at least three years in the line of business and industry of the new applicant. Details of such experience must be disclosed in the listing document of the new applicant; and (ii) management continuity for the most recent audited financial year.

The executive Directors and the senior management of the Company, namely Mr. Li Xiang, Mr. Shen Yanan, Mr. Li Tie, Mr. Ma Donghui and Mr. Wang Kai, all have sufficient and satisfactory experience of at least three years in the new energy vehicle/automobile industry. For their detailed biographies please see the section headed “Directors and Senior Management” in this document.

During the year ended December 31, 2020 (“FY2020”), being the most recent audited financial year of our Group, and up to the Latest Practicable Date, our Group had been controlled and managed by the Company and Mr. Li Xiang, Mr. Shen Yanan and Mr. Li Tie were the core management team who were primarily responsible for the results of the Group in FY2020. During FY2020 and up to the Latest Practicable Date, all of the said core management team members were directors and senior management of the Company. The remaining directors of our Company during the said period had no day-to-day managerial responsibilities and most were representative directors appointed by our investors prior to our initial public offering on the Nasdaq. Such directors, other than Mr. Wang Xing and Mr. Zhao Hongqiang who remained on the Board, all resigned prior to our initial public offering on the Nasdaq as they were representative directors of our investors and for personal reasons. They did not have any disagreement with our Company. Mr. Fan Zheng was appointed as a Director in October 2020. As such, our Company maintained management continuity during its most recent audited financial year.

Accordingly, we have applied for, and the Stock Exchange has granted a waiver from strict compliance with the trading record requirements under Rule 8.05 pursuant to Rule 8.05A, on the basis that the Company is able to satisfy the other requirements under Rule 8.05(3) of the Listing Rules, including the condition that the Company will have a market capitalization of at least HK\$4 billion at the time of the Listing.

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CONNECTED TRANSACTIONS

We have entered into certain transactions which will constitute continuing connected transactions of our Company under the Listing Rules following the completion of the Global Offering. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (where applicable) (i) the announcement and independent shareholders' approval requirements, (ii) the annual cap requirement, and (iii) the requirement of limiting the term of the continuing connected transactions set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, see the section headed "Connected Transactions."

DISCLOSURE OF OFFER PRICE

Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules provides that the issue price or offer price of each security must be disclosed in the listing document.

The Public Offer Price will be determined by reference to, among other factors, the closing price of our ADS on Nasdaq on the last trading date on or before the price determination date and we have no control on the market price of our ADSs traded on Nasdaq. The latest market price of the Company's ADSs is accessible to the Shareholders and potential investors at <https://www.nasdaq.com/market-activity/stocks/li>. Given the ADSs of our Company are freely tradable on Nasdaq, there may be price fluctuations in the ADSs as a result of market volatility and other factors during the period from the bulk-printing of this document until the pricing of the Global Offering.

Setting a fixed price or a price range with a low end offer price per Offer Share may adversely affect the market price of the ADSs and the Hong Kong Offer Shares considering, among other factors, that this may indicate an arbitrary floor price and may potentially prejudice our ability to price in the best interest of us and our Shareholders.

A maximum Public Offer Price will be disclosed in this prospectus and the Application Form. This alternative disclosure approach would not prejudice the interests of the investing public in Hong Kong.

This prospectus will also disclose (i) the time for determination and announcement of the International Offer Price and the Public Offer Price, (ii) the historical prices of our ADSs and the trading volume on the Nasdaq, (iii) the determinants of the pricing of the Offer Shares and (iv) the source for the potential investors to access the latest market price of our ADSs, which will provide the potential investors with sufficient information to form informed decisions of their investment.

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Given in no circumstances will the Public Offer Price for the Hong Kong Offer Shares be greater than the maximum Public Offer Price as stated in this prospectus and the Application Form, the disclosure of the maximum Public Offer Price in this prospectus will be in compliance with the requirement to disclose the “amount payable on application and allotment on each share” as required by paragraph 9 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

GLOBAL OFFERING

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this document and the **GREEN** Application Form contain the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this document and the **GREEN** Application Form and on the terms and subject to the conditions set out herein and therein. No person is authorized to give document information in connection with the Global Offering or to make any representation not contained in this document and the relevant **GREEN** Application Form, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the pricing of the Hong Kong Offer Shares on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

See the section headed “Underwriting” for further information about the Underwriters and the underwriting arrangements.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Class A Ordinary Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE CLASS A ORDINARY SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of the Offer Shares to, confirm that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this document.

No action has been taken to permit a public offering of the Offer Shares (except for a registration of Class A ordinary shares on a registration statement on Form F-3 to be filed with the SEC) or the distribution of this document and/or the **GREEN** Application Form in any jurisdiction other than Hong Kong or the United States pursuant to an applicable exemption from the registration requirements under the U.S. federal securities laws. Accordingly, without limitation to the following, this document and/or the **GREEN** Application Form may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and/or the **GREEN** Application Form and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, (i) the Class A Ordinary Shares in issue and to be issued pursuant to the Global Offering (including the additional Class A Ordinary Shares which may be issued pursuant to the exercise of the Over-allotment Option); (ii) the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans; (iii) the Class A Ordinary Shares to be issued pursuant to the conversion of the 2028 Notes; and (iv) the Class A Ordinary Shares that are issuable upon conversion of the Class B Ordinary Shares on a one to one basis.

We satisfy the market capitalization/revenue test under Rule 8A.06(1) of the Listing Rules with reference to our expected market capitalization at the time of Listing, which, based on the indicative offer price of HK\$150.00 per Offer Share, exceeds HK\$40 billion.

Dealings in the Class A Ordinary Shares on the Stock Exchange are expected to commence on Thursday, August 12, 2021. Our ADSs are currently listed on and dealt in the Nasdaq. Other than the foregoing, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as of the date of this document. All the Offer Shares will be registered on the Hong Kong share register of our Company in order to enable them to be traded on the Stock Exchange.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Class A Ordinary Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Class A Ordinary Shares or exercising rights attached to them. None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Class A Ordinary Shares or exercising any rights attached to them.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed “Structure of the Global Offering.” Assuming that the Over-allotment Option is exercised in full, the Company may be required to allot and issue up to an aggregate of 15,000,000 new Class A Ordinary Shares.

HONG KONG REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

The Company’s principal register of members will be maintained by its principal share registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands. All of the Class A Ordinary Shares issued pursuant to the Global Offering will be registered on the Company’s Hong Kong share register to be maintained in Hong Kong by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Dealings in the Class A Ordinary Shares registered in our Company’s Hong Kong Share Register will be subject to Hong Kong stamp duty. Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Class A Ordinary Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders’ risk, to the registered address of each shareholder.

CLASS A ORDINARY SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Class A Ordinary Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Class A Ordinary Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Class A Ordinary Shares on the Stock Exchange or on any other date as

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests.

LISTINGS

Our Company currently has a primary listing of ADSs on the Nasdaq, which it intends to maintain alongside its proposed dual primary listing of Class A Ordinary Shares on the Stock Exchange.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set forth in “How to Apply for Hong Kong Offer Shares” and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering.”

EXCHANGE RATE CONVERSION

Solely for your convenience, this document contains conversions among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated, or at all. Unless indicated otherwise, the conversions between U.S. dollars and Renminbi were made at the rate of RMB6.5518 to US\$1.00 and the conversions between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.7746 to US\$1, the respective exchange rate on March 31, 2021 set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve Board. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

SELLING RESTRICTIONS ON OFFERS AND SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this document and on the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this document and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this document may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

OWNERSHIP OF ADSS

An owner of ADSs may hold his or her ADSs either by means of an ADR registered in his or her name, through a brokerage or safekeeping account, or through an account established by the depositary bank in his or her name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank (commonly referred to as the “**direct registration system**” or “**DRS**”). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and The Depository Trust Company (“**DTC**”), the central book-entry clearing and settlement system for equity securities in the United States. If an owner of ADSs decides to hold his or her ADSs through his or her brokerage or safekeeping account, he or she must rely on the procedures of his or her broker or bank to assert his or her rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. All ADSs held through DTC will be registered in the name of a nominee of DTC.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

DEALINGS AND SETTLEMENT OF CLASS A ORDINARY SHARES IN HONG KONG

Dealings in our Class A Ordinary Shares on the Stock Exchange will be conducted in Hong Kong dollars. Our Class A Ordinary Shares will be traded on the Stock Exchange in board lots of 100 Class A Ordinary Shares.

The transaction costs of dealings in our Class A ordinary shares on the Hong Kong Stock Exchange include:

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK\$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.26% of the value of the transaction, with 0.13% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong Share Registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

Investors in Hong Kong must settle their trades executed on the Stock Exchange through their brokers directly or through custodians. For an investor in Hong Kong who has deposited his/her Class A Ordinary Shares in his/her stock account or in his/her designated CCASS Participant's stock account maintained with CCASS, settlement will be effected in CCASS in

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his/her broker or custodian before the settlement date.

An investor may arrange with his/her broker or custodian on a settlement date in respect of his/her trades executed on the Stock Exchange. Under the Listing Rules and the General Rules of CCASS and CCASS Operational Procedures in effect from time to time, the date of settlement must be the second business day (a day on which the settlement services of CCASS are open for use by CCASS Participants) following the trade date (T+2). For trades settled under CCASS, the General Rules of CCASS and CCASS Operational Procedures in effect from time to time provided that the defaulting broker may be compelled to compulsorily buy-in by HKSCC the day after the date of settlement (T+3), or if it is not practicable to do so on T+3, at any time thereafter. HKSCC may also impose fines from T+2 onwards.

DEPOSITARY

The depositary for our ADSs is Deutsche Bank Trust Company Americas (the “**Depositary**”), whose office is located at 60 Wall Street, New York, New York 10005, United States. The certificated ADSs are evidenced by certificates referred to as American Depositary Receipts (“**ADRs**”) that are issued by the Depositary.

Each ADS represents ownership interests in two Class A Ordinary Shares, and any and all securities, cash or other property deposited with the Depositary in respect of such Shares but not distributed to ADS holders.

ADSs may be held either (1) directly (a) by having an ADR registered in the holder’s name or (b) by holding in the DRS, pursuant to which the Depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the Depositary to the ADS holders entitled thereto, or (2) indirectly through the holder’s broker or other financial institution. The following discussion regarding ADSs assumes the holder holds its ADSs directly. If a holder holds the ADSs indirectly, it must rely on the procedures of its broker or other financial institution to assert the rights of ADS holders described in this section. If applicable, you should consult with your broker or financial institution to find out what those procedures are.

We do not treat ADS holders as Shareholders, and ADS holders have no Shareholder rights. Cayman Islands law governs Shareholder rights. Because the Depositary actually holds the legal title to our Shares represented by ADSs (through the Depositary’s Custodian (as defined below)), ADS holders must rely on it to exercise the rights of a Shareholder. The obligations of the Depositary are set out in the deposit agreement, as amended among us, Deutsche Bank Trust Company Americas and our ADS holders and beneficial owners from time to time (the “**Deposit Agreement**”). The Deposit Agreement and the ADRs evidencing ADSs are governed by the law of the State of New York.

Transfer of Shares to Hong Kong Share Register

All of our Shares are currently registered on the principal register of members in the Cayman Islands. As at the Latest Practicable Date, there was an aggregate of 1,951,845,710 issued Shares on the registers of members in the Cayman Islands, 830,207,594 of which were on deposit in the ADS program. For the purposes of trading on the Stock Exchange, the Shares must be registered in the Hong Kong Share Register.

ADSs are quoted for trading on Nasdaq. An investor who holds Shares and wishes to trade ADSs on Nasdaq must deposit or have his broker deposit with Deutsche Bank AG, Hong Kong Branch, as custodian of the Depositary (the “**Depositary’s Custodian**”), Shares, or evidence of rights to receive Shares, so as to receive the corresponding ADSs as described below.

Converting Class A Ordinary Shares Trading in Hong Kong to ADSs

An investor who holds Class A Ordinary Shares registered in Hong Kong and who intends to convert them to ADSs to trade on the Nasdaq must deposit or have his or her broker deposit the Class A Ordinary Shares with the depositary’s Hong Kong custodian, Deutsche Bank AG, Hong Kong Branch, or the custodian, in exchange for ADSs.

A deposit of Class A Ordinary Shares trading in Hong Kong in exchange for ADSs involves the following procedures:

- If Class A Ordinary Shares have been deposited with CCASS, the investor must transfer ordinary shares to the depositary’s account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed letter of transmittal to the custodian via his or her broker.
- If Class A Ordinary Shares are held outside CCASS, the investor must arrange to deposit his or her Class A Ordinary Shares into the CCASS for delivery to the depositary’s account with the custodian within CCASS, and must submit and deliver a duly completed and signed letter of transmittal to the custodian via his or her broker.
- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will register the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs as instructed in the letter of transmittal.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

For Class A Ordinary Shares deposited in CCASS, under normal circumstances, the above steps generally require two business days, provided that the investor has provided timely and complete instructions. For Class A Ordinary Shares held outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

Converting ADSs to Class A Ordinary Shares Trading in Hong Kong

An investor who holds ADSs and who intends to convert his or her ADSs Class A Ordinary Shares that trade on the Hong Kong Stock Exchange must cancel the ADSs the investor holds and withdraw Class A Ordinary Shares from our ADS program and cause his or her broker or other financial institution to trade such Class A Ordinary Shares on the Hong Kong Stock Exchange.

An investor that holds ADSs indirectly through a broker or other financial institution should follow the procedure of the broker or financial institution and instruct the broker to arrange for cancellation of the ADSs, and transfer of the underlying Class A Ordinary Shares from the depositary's account with the custodian within the CCASS system to the investor's Hong Kong stock account.

For investors holding ADSs directly, the following steps must be taken:

- To withdraw Class A Ordinary Shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will instruct the custodian to deliver Class A Ordinary Shares underlying the canceled ADSs to the CCASS account designated by an investor.
- If an investor prefers to receive Class A Ordinary Shares outside CCASS, he or she must receive Class A Ordinary Shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register Class A Ordinary Shares in their own names with the Hong Kong Share Registrar.

For Class A Ordinary Shares to be received in CCASS, under normal circumstances, the above steps generally require two business days, provided that the investor has provided timely and complete instructions.

For Class A Ordinary Shares to be received outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. The investor will be unable to trade the Class A Ordinary Shares on the Hong Kong Stock Exchange until the procedures are completed.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancellations. In addition, completion of the above steps and procedures for delivery for Class A Ordinary Shares in a CCASS account is subject to there being a sufficient number of Class A Ordinary Shares on the Hong Kong share register to facilitate a withdrawal from the ADS program directly into the CCASS system. We are not under any obligation to maintain or increase the number of Class A Ordinary Shares on the Hong Kong share register to facilitate such withdrawals.

Depositary Requirements

Before the depositary delivers ADSs or permits withdrawal of Class A Ordinary Shares, the depositary may require:

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including completion and presentation of transfer documents.

The depositary may refuse to deliver, transfer, or register issuances, transfers and cancellations of ADSs generally when the transfer books of the depositary or our Hong Kong share registrar or Cayman share registrar are closed or at any time if the depositary or we determine it advisable to do so, subject to such refusal complying with U.S. federal securities laws.

All costs attributable to the transfer of ordinary shares to effect a withdrawal from or deposit of Class A Ordinary Shares into our ADS program will be borne by the investor requesting the transfer. In particular, holders of Ordinary Shares and ADSs should note that the Hong Kong Share Registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Listing Rules), for each transfer of Class A Ordinary Shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong. In addition, holders of ordinary shares and ADSs must pay up to US\$5.00 per 100 ADSs (or portion thereof) for each issuance of ADSs and each cancellation of ADSs, as the case may be, in connection with the deposit of Class A Ordinary Shares into, or withdrawal of ordinary shares from, our ADS program.

LANGUAGE

If there is any inconsistency between the English version of this document and the Chinese translation of this document, the English version of this document shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English document which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

Any discrepancies in any table in this document between total and sum of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

| Name | Address | Nationality |
|------|---------|-------------|
|------|---------|-------------|

Executive Directors

| | | |
|---------------|---|---------|
| LI Xiang (李想) | No. 202, Unit 3, Block 11 No. 2, Juchang South Lane Qiaoxi District Shijiazhuang Hebei, China | Chinese |
|---------------|---|---------|

| | | |
|------------------|---|---------|
| SHEN Yanan (沈亞楠) | Unit 6 C, Building No. 1 Bi Yuan Bi Hua Ting Ju Futian District Shenzhen Guangdong, China | Chinese |
|------------------|---|---------|

| | | |
|-------------|--|---------|
| LI Tie (李鐵) | Unit 601, Gate No. 2, Building No. 5 No. 15 Xue Yuan South Road Haidian District Beijing, China | Chinese |
|-------------|--|---------|

Non-executive Directors

| | | |
|----------------|--|---------|
| WANG Xing (王興) | Unit 302, Building No. 2 Ya Yun Xin Jia Yuan No. 1 Xindian Road Chaoyang District Beijing, China | Chinese |
|----------------|--|---------|

| | | |
|----------------|---|---------|
| FAN Zheng (樊錚) | Flat 302, Unit No. 2, Building No. 2 Municipal Local Tax Bureau Residence No. 336 Xin Shi North Road Qiaoxi District Shijiazhuang Hebei, China | Chinese |
|----------------|---|---------|

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Independent non-executive Directors

| Name | Address | Nationality |
|----------------------|---|-------------|
| ZHAO Hongqiang (趙宏強) | No. 1101, Unit No. 3, Building No. 3 Yard No. 3, Jing Da Road Chaoyang District Beijing, China | American |
| JIANG Zhenyu (姜震宇) | No. 21, Group 9, PiYan Village Sijia Town Haimen City Jiangsu Province, China | Chinese |
| XIAO Xing (肖星) | No. 102, Gate No. 2, Dormitory No. 23 Tsinghua University Haidian District Beijing, China | Chinese |

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

China International Capital Corporation Hong Kong Securities Limited

29/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Global Coordinators

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

China International Capital Corporation

Hong Kong Securities Limited

29/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

UBS AG Hong Kong Branch

52/F, Two International Finance Centre
8 Finance Street
Hong Kong

Joint Bookrunners and Joint Lead Managers

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

China International Capital Corporation

Hong Kong Securities Limited

29/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

UBS AG Hong Kong Branch

52/F, Two International Finance Centre
8 Finance Street
Hong Kong

UBS Securities LLC

(in relation to the International Offering only)
1285 Avenue of the Americas
New York
New York 10019
United States

CLSA Limited

18/F, One Pacific Place
88 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

BOCI Asia Limited

26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

CMB International Capital Limited

45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F, United Centre
No. 95 Queensway
Admiralty
Hong Kong

Financial Adviser to our Company

UBS AG Hong Kong Branch

52/F, Two International Finance Centre
8 Finance Street
Hong Kong

Auditor and Reporting Accountant

PricewaterhouseCoopers

Certified Public Accountants
Registered Public Interest Entity Auditor
22/F Prince's Building
Central
Hong Kong

Legal Advisors to our Company

As to Hong Kong and U.S. laws:

Skadden, Arps, Slate, Meagher & Flom and affiliates

42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

Han Kun Law Offices

9/F, Office Tower C1
Oriental Plaza, 1 East Chang An Avenue
Beijing 100738 China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|---|---|
| | <p><i>As to Cayman Islands laws</i></p> <p>Maples and Calder (Hong Kong) LLP 26th Floor, Central Plaza 18 Harbour Road Wanchai Hong Kong</p> |
| <p>Legal Advisors to the Joint Sponsors and the Underwriters</p> | <p><i>As to Hong Kong and U.S. laws:</i></p> <p>Kirkland & Ellis 26/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong</p> <p><i>As to PRC law:</i></p> <p>King & Wood Mallesons 18th Floor, East Tower World Financial Center 1 Dongsanhuan Zhonglu Chaoyang District Beijing, China</p> |
| <p>Industry Consultant</p> | <p>China Insights Industry Consultancy Limited 10F, Block B, Jing'an International Center 88 Puji Road, Jing'an District Shanghai 200070 China</p> |
| <p>Receiving Bank</p> | <p>Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong</p> |

CORPORATE INFORMATION

| | |
|---|---|
| Registered Office | PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands |
| Head Office and Principal Place of Business in China | 11 Wenliang Street Shunyi District Beijing 101399 the PRC |
| Principal Place of Business in Hong Kong | Level 54, Hopewell Centre 183 Queen's Road East Hong Kong |
| Company's Website | https://ir.lixiang.com/ <i>(A copy of this document is available on the Company's website. Except for the information contained in this document, none of the other information contained on the Company's website forms part of this document.)</i> |
| Company Secretaries | <p>Ms. Lau Yee Wa ACG, ACS Level 54, Hopewell Centre 183 Queen's Road East Hong Kong</p> <p>Mr. Wang Yang 11 Wenliang Street Shunyi District Beijing 101399 the PRC</p> |
| Authorized Representatives | <p>Ms. Lau Yee Wa Level 54, Hopewell Centre 183 Queen's Road East Hong Kong</p> <p>Mr. Li Tie 11 Wenliang Street Shunyi District Beijing 101399 the PRC</p> |

CORPORATE INFORMATION

Audit Committee

Mr. Jiang Zhenyu
Prof. Xiao Xing
Mr. Zhao Hongqiang (*Chairman*)

Compensation Committee

Mr. Jiang Zhenyu
Mr. Li Xiang
Mr. Zhao Hongqiang (*Chairman*)

**Nominating and Corporate
Governance Committee**

Mr. Jiang Zhenyu (*Chairman*)
Prof. Xiao Xing
Mr. Zhao Hongqiang

Compliance Adviser

Somerley Capital Limited
20/F., China Building
29 Queen's Road Central
Hong Kong

Hong Kong Share Registrar

**Computershare Hong Kong
Investor Services Limited**
Shop 1712-1716, 17F
Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

**Principal Share Registrar and
Transfer Office**

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

Principal Banker

China Merchants Bank Co., Ltd.
China Merchants Bank Tower
No. 7088 Shennan Boulevard
Shenzhen
Guangdong, China

INDUSTRY OVERVIEW

Certain information and statistics presented in this section and elsewhere in this document were derived from official government publications and other publicly available sources as well as from the CIC Report, a market research report prepared by CIC, an independent market research and consulting company that was commissioned by us. We believe that the sources of the information in this section and elsewhere in this document are appropriate sources for such information and reasonable care has been taken in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us or any parties (except CIC) involved in the Global Offering, or any of our or their respective directors, officers, or representatives, and no representation is given as to its accuracy or completeness. Accordingly, you should not place undue reliance on such information and statistics. For discussions of risks relating to our industries, see “Risk Factors—Risks Relating to Our Business and Industry.”

SOURCES OF INFORMATION

We commissioned CIC, an independent market research and consulting company that provides industry consulting services, commercial due diligence, and strategic consulting to conduct a detailed research on and analysis of the NEV market in China. We have agreed to pay a fee of US\$100,000 to CIC in connection with the preparation of the CIC Report. We have extracted certain information from the CIC Report in this section, as well as in “Summary,” “Risk Factors,” “Business,” “Financial Information,” and elsewhere in this document to provide our potential investors with a more comprehensive presentation of the industries where we operate.

During the preparation of the CIC Report, CIC performed both primary and secondary research, and obtained knowledge, statistics, information, and industry insights on the industry trends of the NEV market in China. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources, such as the PRC National Bureau of Statistics and various industry associations. The information and data collected by CIC has been analyzed, assessed, and validated using CIC’s in-house analysis models and techniques.

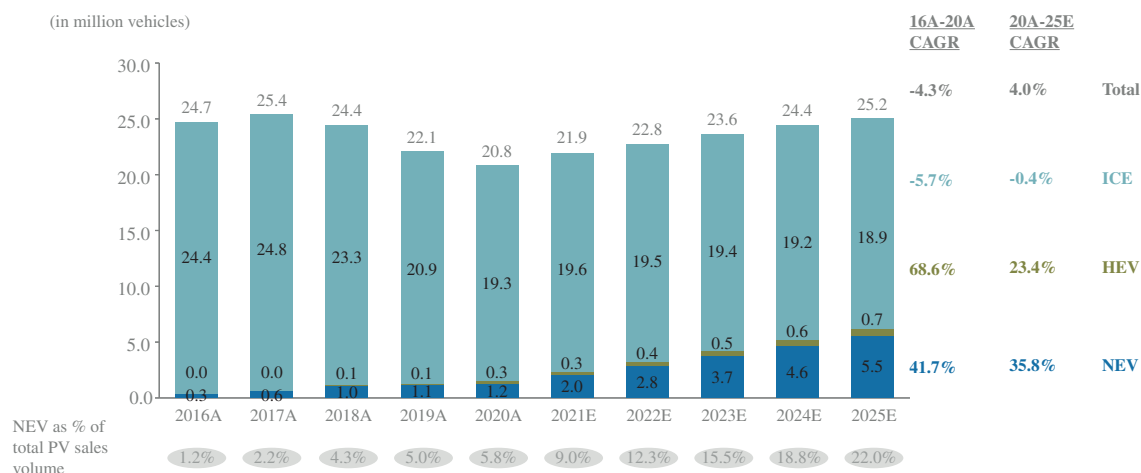
The CIC Report was compiled based on the following assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period, (ii) the relevant key industry drivers are likely to propel continued growth in China’s NEV market throughout the forecast period, including increasing disposable income of consumers, favorable policies and incentives that promote sales of NEVs, and wider acceptance of NEVs, and (iii) there will be no extreme unforeseen events, including regulations and government policies, which may materially affect the market during the forecast period.

INDUSTRY OVERVIEW

OVERVIEW OF CHINA'S PASSENGER VEHICLE MARKET

China has been the world's largest passenger vehicle market as measured by sales volume since 2009. Driven by economic growth and increasing urbanization, China's passenger vehicle sales volume reached 20.8 million in 2020. Nevertheless, according to the CIC Report, private car parc penetration rate in China was only 20.0% in 2020, compared to 59.2% in the United States in 2020. Due to the outbreak of the COVID-19 pandemic, China's passenger vehicle market greatly contracted in the first half of 2020. Benefited from various effective measures rolled out by the PRC government, the passenger vehicle sales volume picked up in the second half of 2020. Overall, the sales volume of passenger vehicle in China decreased by 6.3% from 2019 to 2020. It is expected to grow at a CAGR of 4.0% from 2020 to 2025, higher than the expected CAGR of 3.3% for the world's passenger vehicle market over the same period, according to the CIC Report.

Passenger Vehicle Sales Volume in China by Energy Type (2016A-2025E)



Note: HEV (Hybrid Electric Vehicle) is a kind of passenger vehicle that can use both traditional internal combustion engine and electric motor as power source. According to the New Energy Vehicle Industry Development Plan, HEV is not a subset of NEV and it cannot enjoy NEV benefits such as license plate policies, purchase tax exemption, subsidies, and vehicle credit policies.

OVERVIEW OF CHINA'S NEV MARKET

Categories of NEVs

Based on the New Energy Vehicle Industry Development Plan (2021-2035), the PRC government categorizes NEVs into BEVs, PHEVs (including EREVs), and FCEVs. EREVs are distinct from PHEVs because EREVs are only propelled by electric motors on a full-time basis while PHEVs are primarily propelled by engines and are only propelled by electric motors on an on-demand basis. Compared to a PHEV, an EREV is equipped with a much larger battery pack to support a much longer purely electrically powered range, which is sufficient to provide users with a BEV-like, zero-emission experience in an urban commuting scenario. Furthermore, unlike a PHEV that needs to switch between engine drive and electric motor

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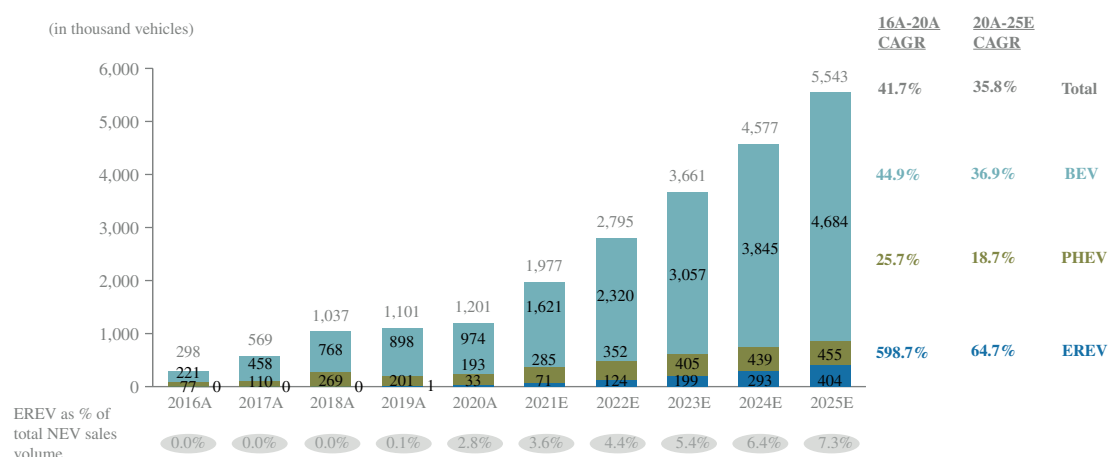
drive, an EREV delivers superior, consistent driving experience, smoother acceleration, and better NVH performance. However, as mass consumers are not familiar with EREV technology, it requires higher educational costs for marketing and promotion purpose. Currently, there is no volume production of FCEVs in China's passenger vehicle market as there are various obstacles in FCEV technology development and commercialization in the passenger vehicle market. The FCEV technology is applied in limited scale in certain heavy-duty trucks and buses for commercial use. As it is expected to take considerable time to clear the obstacles in FCEV technology development and commercialization in the passenger vehicle market, no material growth of the FCEV sales in China's passenger vehicle market is expected in the foreseeable future.

High Growth Potential

China has become the world's largest NEV market. In recent years, the growth of NEV sales volume has surpassed that of the ICE vehicles in China. According to the CIC Report, the NEV sales volume in China increased from 0.3 million vehicles in 2016 to 1.2 million vehicles in 2020, representing a CAGR of 41.7%. In 2020, the NEV sales volume only accounted for 5.8% of the total passenger vehicle sales volume, indicating massive future growth potential. The New Energy Vehicle Industry Development Plan (2021-2035) issued by the MIIT in October 2020 has set China's target NEV sales volume to be around 20% of total vehicle sales volume by 2025. According to the Technology Roadmap for Energy Saving and New Energy Vehicles 2.0 issued by China Society of Automotive Engineers, the proportion of NEV sales out of the total vehicle sales will rise to approximately 40% by 2030. In 2035, NEVs will account for over 50% of the total vehicle sales. Driven by favorable policies, evolving vehicle technology, and rapid battery cost reduction, as well as wider consumer acceptance of NEVs resulting from better understanding and increasing demand for intelligent technology and connectivity, the NEV sales volume in China is expected to continue to grow at a CAGR of 35.8% from 2020 to 2025, according to the CIC Report.

The following diagram illustrates the NEV sales volume in China for the periods indicated. The sales volume of FCEV is omitted as no material growth of the FCEV sales in China's passenger vehicle market is expected in the foreseeable future.

NEV Sales Volume in China by Energy Type (2016A-2025E)



Source: CPCA, CIC

Main Drivers of China's NEV Market

Favorable Policies

In order to reduce pollution, improve energy security, and revive domestic automotive industry, the PRC government has introduced numerous policies to accelerate the development of the NEV industry. The key incentive policies for the NEV industry include reduced taxes, direct subsidies to automakers, consumer subsidies, mandated government procurements, and industry development plans. In addition, a dual-credit policy has been introduced to encourage automakers to produce more NEVs and fewer ICE vehicles such that the production of NEVs helps automakers to earn positive credits. Automakers are required to reach a threshold of credits each year, the failure of which will result in the suspension of the registration, or even the production, of those vehicles with high fuel consumption. In practice, automakers with insufficient credits will generally purchase the credits from other automakers for failure to reach the threshold. At the same time, in several major cities with license plate restrictions, the threshold for NEVs to obtain license plates has been lowered.

Development of Battery Technology and Intelligent Vehicle Technology

The development of power battery technology and the reduction of battery cost will significantly drive the development of the NEV market. As power battery technology advances, the battery mileage and charging efficiency of NEVs will improve, resulting in consumers' increasing interest in buying NEVs. In addition, the reduction of battery cost will further narrow down the price gap between NEVs and ICE vehicles with comparable configurations rendering NEVs an economically viable choice for more consumers. Moreover, NEVs are believed to be the best carriers of intelligent technologies and are expected to transform into smart products controlled by intelligent systems, from simple transportation tools to "intelligent mobile spaces." Intelligent connectivity will bring new development opportunities for NEVs in the automotive revolution.

Consumer Awareness and Acceptance of NEVs

As more competitors introduce NEVs, consumers are paying more attention to and becoming more willing to embrace NEVs. Compared to ICE vehicles, NEVs have lower cost of energy replenishment and enjoy favorable policies and subsidies, which attract an increasing number of consumers to switch from ICE vehicles to NEVs. In addition, consumer preference to intelligence and connectivity and user-centric design helps enhance consumers' acceptance of NEVs. Furthermore, an expanding coverage of charging infrastructure nationwide improves the driving experience and reduces the range anxiety of NEV consumers, and the improving energy efficiency of NEVs and the associated declining driving costs also contribute to the consumers' increasing acceptance of NEVs.

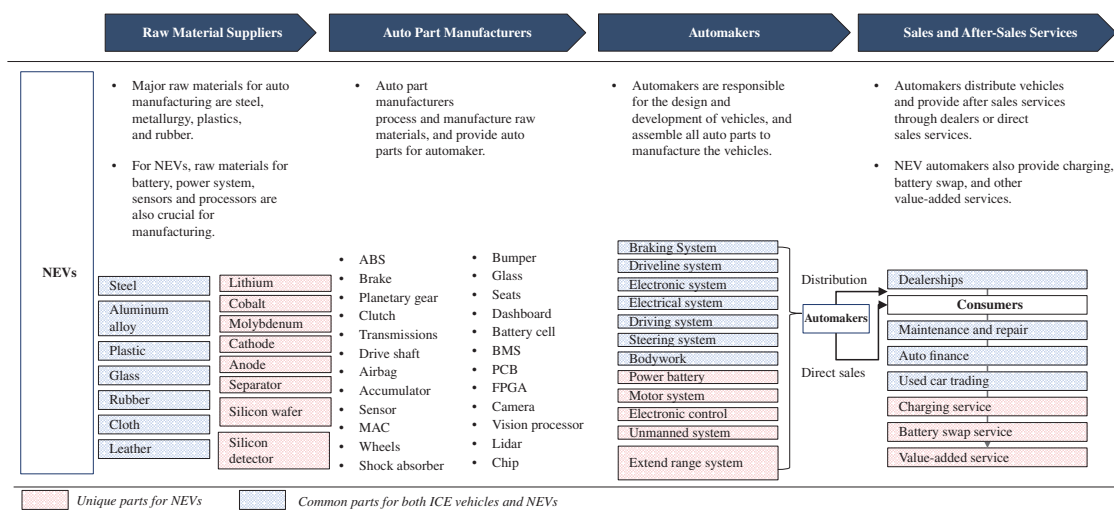
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Value Chain of China's NEV Market

The value chain of the automotive industry includes raw material suppliers, auto part manufacturers, automakers, and sales and after-sales services. Compared with the ICE automakers, the NEV automakers require additional suppliers related to power batteries and intelligent solutions in its supplier system. In addition, NEV automakers have built up direct sales and servicing network to improve operating efficiency on top of the traditional dealership model. Besides maintenance and repair, auto finance, used car trading, and after-sales services for both ICE automakers and NEV automakers, NEV automakers are also required to provide charging, battery swap, and other value-added services.

The following diagram illustrates the value chain of China's NEV Market. The Company serves as an automaker in the value chain, and provides direct sales and after-sales services.

Value Chain of China's NEV Market (2020)



Source: CIC

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Competitive Landscape of China's NEV Market

In 2020, there were 131 automobile brands with passenger vehicles delivered in China. The passenger vehicle market in China was relatively fragmented, with the top 5 automobile brands accounting for 39.3% of the total sales volume in 2020. China's total NEV sales volume 2020 were accounted for by 288 NEV models or 77 NEV brands. The production of Li ONE commenced in November 2019. In 2020, Li ONE was the best-selling new energy SUV, which is the only EREV among the top 10 best-selling new energy SUVs, and was the sixth best-selling NEV.

The following table set forth the ranking of NEV brands in terms of sales volume in 2020.

| <u>Ranking</u> | <u>Company</u> | <u>Sales Volume⁽¹⁾ (Vehicles)</u> | <u>Market Share⁽²⁾</u> |
|----------------|----------------|--|-----------------------------------|
| 1 | Company E | 179,054 | 14.9% |
| 2 | Company A | 144,389 | 12.0% |
| 3 | Company F | 119,255 | 9.9% |
| 4 | Company G | 66,861 | 5.6% |
| 5 | Company H | 57,565 | 4.8% |
| 6 | Company I | 55,441 | 4.6% |
| 7 | Company J | 47,848 | 4.0% |
| 8 | Company K | 46,354 | 3.9% |
| 9 | Company B | 43,728 | 3.6% |
| 10 | Company L | 43,019 | 3.6% |
| 11 | Li Auto | 32,624 | 2.7% |
| 12 | Company M | 31,473 | 2.6% |
| 13 | Company N | 29,035 | 2.4% |
| 14 | Company C | 27,006 | 2.2% |
| 15 | Company O | 25,230 | 2.1% |

Source: CPCA, CIC

Notes:

(1) The sales volume refers to wholesale volume.

(2) The market share is calculated as wholesale volume divided by total NEV sales volume.

Since 2014, a number of emerging automakers entered the market specializing in manufacturing NEVs. As of December 31, 2020, there were 12 NEV automakers that solely manufacture NEVs. Among these automakers, Li Auto ranked the third in terms of sales volume in 2020.

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The following table sets forth the ranking of automakers that solely manufacture NEVs in terms of sales volume in 2020.

| Ranking | Company | Listing Status | Sales Volume ⁽¹⁾ (Vehicles) | Market Share ⁽²⁾ |
|---------|--------------------------|----------------|--|-----------------------------|
| 1 | Company A ⁽³⁾ | Listed | 144,389 | 12.0% |
| 2 | Company B ⁽⁴⁾ | Listed | 43,728 | 3.6% |
| 3 | Li Auto | Listed | 32,624 | 2.7% |
| 4 | Company C ⁽⁵⁾ | Listed | 27,006 | 2.2% |
| 5 | Company D ⁽⁶⁾ | Private | 22,495 | 1.9% |

Source: CPCA, CIC

Notes:

- (1) The sales volume refers to wholesale volume.
- (2) The market share is calculated as wholesale volume divided by total NEV vehicle sales volume.
- (3) Established in 2003, Company A is a BEV automaker and clean energy company based in California, United States. Company A had delivered three models in China as of December 31, 2020.
- (4) Established in 2014, Company B is a BEV automaker headquartered in Shanghai, China. Company B had delivered three models in China as of December 31, 2020.
- (5) Established in 2014, Company C is a BEV automaker headquartered in Guangzhou, China. Company C had delivered two models in China as of December 31, 2020.
- (6) Established in 2015, Company D is a BEV automaker headquartered in Shanghai, China. Company D had delivered two models in China as of December 31, 2020.

As of December 31, 2020, there were two EREV models delivered in China and Li ONE ranked the first in terms of sales volume. Li ONE is the first successfully commercialized EREV in China and defines a new market segment in China with huge growth potential. Automakers will have to commit significant capital to manufacture EREVs because an existing ICE vehicle platform would not easily accommodate a range extension system, a battery, and an electric motor. In addition, engineers will have to optimize the vehicle NVH performance, improve smoothness when switching between different driving modes of the powertrain, and enhance energy efficiency.

The following table sets forth the ranking of NEVs in terms of sales volume in 2020.

Top 10 NEVs
(in terms of sales volume in 2020)

| Ranking | Model | Energy Type | MSRP (RMB in thousands) | Sales Volume ⁽¹⁾ (Vehicles) | Market Share ⁽²⁾ |
|---------|--------------------------|-------------|-------------------------------|--|--------------------------------|
| 1 | TESLA Model 3 | BEV | 265.7-419.8 | 140,311 | 11.7% |
| 2 | Wuling Hongguang Mini EV | BEV | 28.8-43.6 | 115,544 | 9.6% |
| 3 | Aion S | BEV | 139.8-205.8 | 54,759 | 4.6% |
| 4 | ORA R1 | BEV | 69.8-84.8 | 44,683 | 3.7% |

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Top 10 NEVs (in terms of sales volume in 2020)

| Ranking | Model | Energy Type | MSRP (RMB in thousands) | Sales Volume ⁽¹⁾ (Vehicles) | Market Share ⁽²⁾ |
|---------|---------------|-------------|-------------------------------|--|--------------------------------|
| 5 | Chery eQ1 | BEV | 66.8-73.8 | 35,630 | 3.0% |
| 6 | Li ONE | EREV | 328.0 | 33,457 | 2.8% |
| 7 | BYD Qin EV | BEV | 129.9-174.8 | 31,653 | 2.6% |
| 8 | NIO ES6 | BEV | 358.0-526.0 | 27,832 | 2.3% |
| 9 | Baojun E100 | BEV | 49.8-54.8 | 24,504 | 2.0% |
| 10 | BMW 5 Series | PHEV | 499.9-536.9 | 24,169 | 2.0% |

Source: CPCA, CIC

Notes:

- (1) The sales volume refers to retail sales volume.
- (2) The market share is calculated as retail sales volume divided by total NEV sales volume.

The following table sets forth the ranking of new energy SUVs in terms of sales volume in 2020.

Top 10 New Energy SUVs (in terms of sales volume in 2020)

| Ranking | Model | Energy Type | Sales Volume ⁽¹⁾ (Vehicles) | Market Share ⁽²⁾ |
|---------|----------------------|-------------|--|-----------------------------|
| 1 | Li ONE | EREV | 33,457 | 9.7% |
| 2 | NIO ES6 | BEV | 27,832 | 8.0% |
| 3 | WM EX5 | BEV | 16,860 | 4.9% |
| 4 | BYD Tang DM | PHEV | 15,549 | 4.5% |
| 5 | BYD Yuan EV | BEV | 12,356 | 3.6% |
| 6 | XPENG G3 | BEV | 11,996 | 3.5% |
| 7 | NIO ES8 | BEV | 10,795 | 3.1% |
| 8 | VOLKSWAGEN Tiguan | PHEV | 9,504 | 2.7% |
| 9 | NETA N01 | BEV | 7,307 | 2.1% |
| 10 | ROEWE RX5 | PHEV | 7,140 | 2.1% |

Source: CPCA, CIC

Notes:

- (1) The sales volume refers to retail sales volume.
- (2) The market share is calculated as retail sales volume divided by total new energy SUV sales volume.

Entry Barriers of China's NEV Market

Initial Capital Investment

China's NEV market is capital intensive. NEV automakers have to inject significant capital in technology research, vehicle manufacturing, marketing, and infrastructure construction. To eliminate obsolete production capacity in the NEV market, the Administrative Regulations on Investment in the Automotive Industry issued on December 10, 2018 stipulated that new BEV projects should have a production capacity exceeding 100,000 passenger vehicles or 5,000 commercial vehicles.

Technology Capability

Technology capability to self-develop vehicle platforms is one of the entry barriers as the successful development of such a platform generally takes at least three years. In addition, the Access Management Rules for New Energy Vehicle Production Enterprises and Products clarifies that NEV automakers should have the ability to design, develop, and manufacture vehicle products while ensuring consistent quality of products and after-sales services.

Well-Established Relationships with Suppliers and Downstream Industries

A well-established cooperative relationship with battery and auto part manufacturers is essential for players in China's NEV market to ensure a stable supply of raw materials and key components with consistent quality and fair prices. With the increasing attention to intelligence, connectivity, and user-centric design, the upstream NEV industry now also embraces the intelligent technology and includes chip suppliers, sensor suppliers, intelligent infrastructure providers, and in-vehicle application providers. Meanwhile, close cooperation with downstream industries, especially charging services, innovative channels to achieve easy access to consumers, in-vehicle human-machine interaction application operators for driving convenience and enjoyment, and after-sales services such auto finance and auto insurance, will propel future development of an NEV automaker.

Major Cost Components and Cost Trend of NEVs

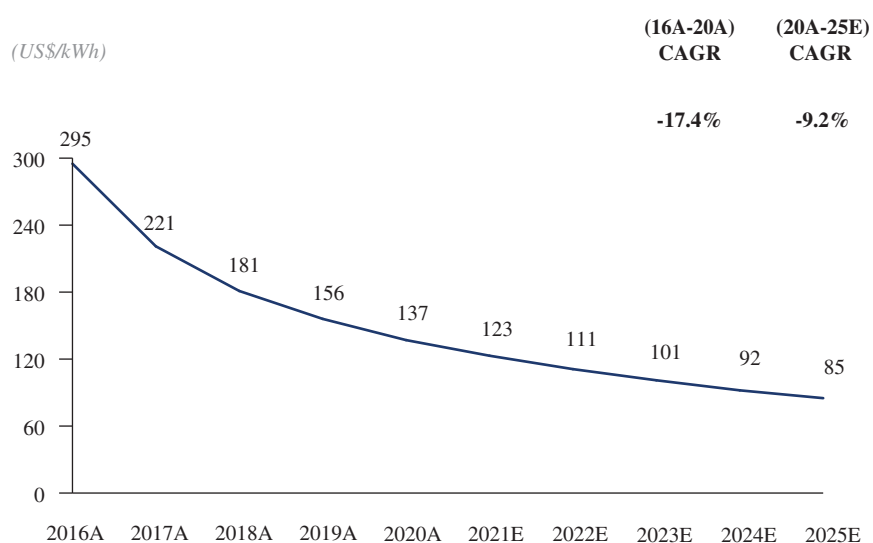
The key components of NEVs include power system, interior decoration, chassis, and vehicle body. NEVs differ from ICE vehicles in their unique design and structure of their powertrain system, which uses electric motors and motor controllers instead of ICEs for propulsion. PHEVs (including EREVs) eliminate the need for a costly battery of large capacity and the extensive use of lightweight materials typically required for BEVs, effectively reducing the cost. Among the components of the powertrain system, the battery system accounts for the largest part of the BOM cost. For a large battery electric SUV, the battery system accounts for approximately 35% of the BOM cost, and electric motor and motor controller accounts for approximately 7% and 6% of the BOM cost, respectively. The battery system accounts for approximately 20% of the BOM cost for PHEVs. The engine and powertrain of PHEVs accounts for around 15% of the BOM cost.

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Battery cost for electric vehicles and stationary battery solutions decreased by over 85% from US\$1,100 per kilowatt-hour to US\$137 per kilowatt-hour from 2010 to 2020. The average price per kilowatt-hour for batteries is expected to hit US\$85 in 2025. The main contributors to the drop in price include the increased production due to sales growth, falling manufacturing costs, the decreasing price of cathode materials, and new pack designs. Underlying material prices will play a larger role in the future, but the introduction of new chemistries, new manufacturing techniques, and simplified pack designs will keep prices falling.

The following diagram illustrates the volume-weighted average battery pack prices in China for the periods indicated.

Volume-Weighted Average Battery Pack Price in China (2016A-2025E)



Source: CIC

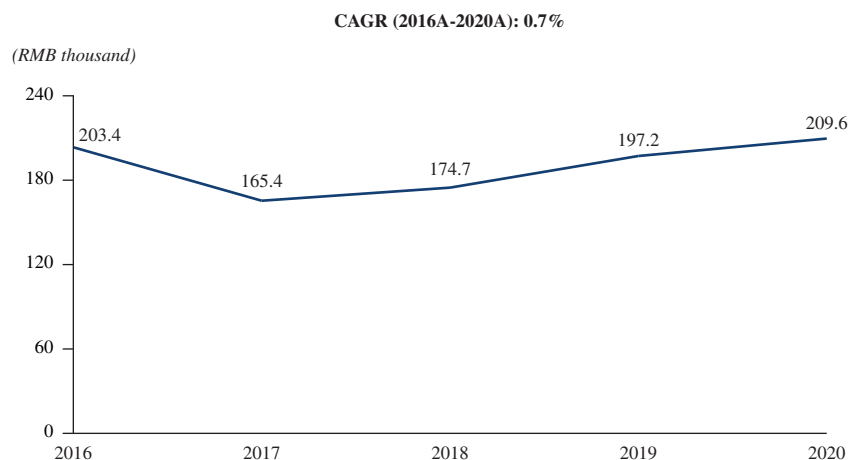
Price Trend of NEVs

The average price of NEVs fluctuated between 2016 and 2020 at a CAGR of 0.7%. As a number of entry and medium level NEV models were released in 2017, and there had been an explosive growth in the sales volume of NEVs priced below RMB300,000, resulting in a sudden drop in average price of NEVs. As the market share of premium models gradually increased after 2017, the average price of NEVs gradually increased thereafter.

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The following diagram illustrates the average price trend of NEVs in China for the periods indicated.

Average Price Trend of NEVs in China (2016A-2020A)



Source: CPCA, CIC

The Challenge Facing China's NEV Market

Among the NEVs, BEVs have been granted the most favorable treatment under the government policies over the past few years and have become the largest segment within the NEV market, accounting for 81.1% of total NEV sales volume in 2020.

The inconvenience of energy replenishment is currently a key constraint for BEV development, which is caused by the inadequate charging infrastructure and long waiting and charging time.

- **Inadequate Charging Infrastructure.** The development of the private charging infrastructure is affected by limited residential parking space in cities with high population density, low percentage of residential parking space suitable for installing home charging stalls, and power grid capacity limits in aged residential areas. As of December 31, 2020, the ratio of residential parking space to car parc was below 1:2 in first-tier cities in China, and fewer than 25% of the families in first-tier cities in China had parking space suitable for installing home charging stalls, compared with over 70% in the United States. As a result, a substantial number of BEV owners in China have to rely on public charging infrastructure.

Public charging stalls can be divided into public slow charging stalls and public fast charging stalls. Generally, public fast charging stalls refer to direct current charging stalls and the time required for a full charge is usually between 30 minutes and 60 minutes. In comparison, public slow charging stalls refer to alternating current

charging stalls that would take several hours to fully charge the battery of a BEV. The inadequate charging infrastructure of public charging especially fast charging stall is expected to drive the demand for more reliable energy replenishment solutions such as range extension. As of December 31, 2020, the ratio of NEV parc to public charging stalls is 6.1 to 1, according to the CIC Report. As of December 31, 2020, fast charging stalls only accounted for 38.3% of total public charging stalls, and the ratio of NEV parc to public fast charging stalls was 15.9 to 1.

- ***Long Waiting and Charging Time.*** Charging a BEV is time-consuming and has always troubled BEV owners as the prevailing fast charging solutions usually take between 30 minutes and 60 minutes to charge a BEV. Considering the additional waiting time, the total time for waiting and charging is longer than consumers' expectation and thus causes inconvenience to consumers. In the past few years, leading BEV manufacturers have been focusing on the research and development of charging technologies to reduce the charging time. Europe is developing ultra-fast charging network, which aims to reduce the charging time for a range of 300 kilometers from 1.5 hours to 20 minutes. However, due to limitation by battery power and voltage platform, ultra-fast charging with charging time lower than 15 minutes is still currently inaccessible.

Solutions to Address the Challenge Facing China's NEV Market

To address the challenge of inconvenient energy replenishment facing China's NEV market, EREV technology will continue to be a reliable energy replenishment solution as it can be replenished by charging and refueling and thus could completely eliminate range anxiety. In the future, with the introduction and development of ultra-fast charging technology and infrastructure, ultra-fast charging also will be a convenient energy replenishment solution.

A reliable energy replenishment solution with EREV technology

An EREV is an electrically powered vehicle with a fuel-based range extension system. EREVs have a number of features that help address major constraints of the wide adoption of BEVs. EREV technology alleviates an NEV's dependence on charging infrastructure and extends driving range to eliminate range anxiety. EREV technology is perfectly suitable for large SUVs as their energy can be replenished by slow charging, fast charging, and refueling, and can operate even when consumers have no access to charging infrastructure, thereby eliminating range anxiety.

Energy replenishment by ultra-fast charging

With government policies supporting the construction plan of charging infrastructure and large investment in the construction of charging infrastructure by leading players such as the State Grid Corporation of China and China Southern Power Grid, the charging infrastructure is expected to improve rapidly over time. The ratio of NEV parc to public charging stalls was 8.7, 7.4, and 6.1 as of December 31, 2018, 2019, and 2020, respectively. The ratio of NEV parc

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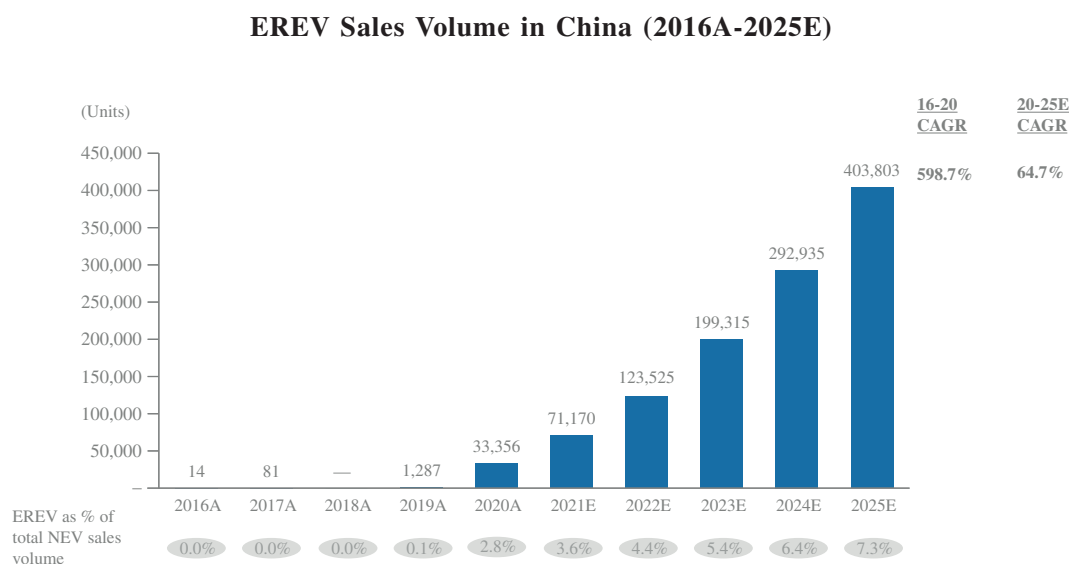
to public fast charging stalls was 23.9, 17.7, and 15.9 as of December 31, 2018, 2019, and 2020, respectively. With the continuous investment in charging infrastructure, the ratio of NEV parc to public charging stalls is expected to reach 3:1 by 2025. However, the charging infrastructure currently promoted by the government can only support fast charging solutions with a charging time usually between 30 minutes and 60 minutes due to limitations of the current battery technology and charging network. With the technology development in ultra-fast charging infrastructure and battery, the charging time would further decrease to 10 to 15 minutes after 2023, resulting in increasing popularity and rising sales of BEVs.

OVERVIEW OF CHINA'S EREV MARKET

The EREV technology was first introduced in the early twentieth century, and has been successfully applied in certain overseas markets. For example, the Nissan Note series was the 2018 best-selling passenger vehicle in Japan, achieving a sales volume of 136,000 vehicles in Japan, 65.6% of which were the EREV model, e-Power. The LEVC TX series taxi, another successful EREV introduced in January 2018, has transported over 13 million passengers across Europe and helped taxi drivers save approximately £100 per week.

The total EREV sales volume in China increased from 14 vehicles in 2016 to 33,356 vehicles in 2020, representing a CAGR of 598.7%. The EREV market share in China, calculated as the total EREV sales volume in China divided by the total NEV sales volume in China, increased from 0.005% in 2016 to 2.8% in 2020. Driven by the favorable policies and the advanced propulsion technologies to address the pain point of range anxiety, it is expected that the sales volume of EREVs will further increase to approximately 403,800 vehicles in 2025.

The following diagram illustrates the EREV sales volume in China for the periods indicated.



Source: CIC

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The sales volume of EREVs in 2020, largely consisting of the sales volume of Li ONEs, is relatively low mainly as a result of the COVID-19 pandemic, which led to delay in the production ramp-up, expansion of retail stores, and vehicle delivery and adversely affected the production and deliveries of Li ONEs, especially in the first half of 2020. In addition, the quantity of comparable EREV models in 2020 was limited as the commercialization of EREVs was still in an early stage (Li ONE, as the first successfully commercialized EREV model, started volume production in November 2019). Following the success of Li ONE, other automakers, including Voyah, Seres, Qoros, Nissan, Enovate, and Neta, announced the launch of new EREV models in 2021. These factors have contributed to the reconciliation of the relatively low sales volume of EREVs in 2020 and the forecast of high sales volume in 2025, which represents a CAGR higher than that of the BEV sales volume during the same period.

With our strong product defining capability and continuing investments in intelligent vehicle technologies and autonomous driving solutions, we successfully commercialized EREVs and our EREV sales volume virtually represented the entire sales volume of China's EREV market in 2020. Based on our EREV development history and our understanding of China's EREV market, we expect that it generally takes approximately three years for a typical EREV new player to develop a competitive EREV platform. As we will develop and launch more EREV models that cover a wider price range and continue to improve our products and services and enhance user experience and intelligent systems, we believe that our competitive advantage over other EREV players will continue and we will solidify our leadership position in the EREV market in the future.

Main Drivers of China's EREV Market

Favorable Policies

The production, promotion, and research and development of EREV in the EV industry are encouraged in China by favorable government policies. EREVs are a subset of NEVs and hence can enjoy most of the favorable government incentives and subsidies equivalent to other types of NEVs in China, such as exemption from vehicle purchase tax, one-time government subsidies, preferred treatment in obtaining and calculating NEV credits, and exemption from license plate restrictions in certain cities except for Shanghai (starting from January 1, 2023) and Beijing as the two cities have high level of car parc. It is uncertain whether any other local government will adopt similar measures in areas other than Beijing and Shanghai such that EREVs will not be considered NEVs exempt from the license plate restrictions, which may adversely affect the attractiveness of EREVs to the extent that the users may not continue to enjoy the favorable policies in light of license plate restrictions. Other favorable government incentives and subsidies for EREVs are expected to be sustainable in the foreseeable future.

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Technology Development

The advancement of EREV powertrain and battery technologies drives the development of EREV market, as it optimizes the efficiency and control algorithms of range extension system. The improvement on the technologies enhances the performance of EREVs by providing better NVH performance and driving experience as well as better energy consumption efficiency.

Increasing Preferences for NEVs with Concurrent Demand for Long Distance Travels

The increasing penetration rate of NEVs on the sales of passenger vehicle market indicates the increasing acceptance of NEVs among consumers. However, due to the current inadequate infrastructure and long waiting and charging time, BEVs cannot satisfy consumers' demand for long distance travels. With technology advantages, EREVs could be a reliable solution for consumers who prefer NEVs and who also have strong demand for long-distance travels.

Long-Term Sustainability of EREVs

Despite the advancement of BEV technologies, potential development of charging infrastructure, and the uncertainty of changes in existing policies promulgated by local government on EREVs, the EREV market in the long run is still expected to grow significantly. In the first six months of 2021, the sales volume of EREVs reached 31,481, representing a 218.7% year-on-year increase, which signifies the vast growth potential of the EREV market in 2021. Although both EREVs and BEVs with ultra-fast charging may eliminate range anxiety, the popularity of EREVs is still sustainable given that EREVs can provide longer travel distances per energy refuel and allow for more flexibility for refueling. Furthermore, the coverage of charging infrastructure of BEVs in rural areas or areas with lower population density may not be sufficient in the near future, which places EREVs in a more competitive position in these areas. Consequently, the sales volume of EREVs is expected to increase from 0.03 million in 2020 to 0.4 million in 2025, which is expected to account for 7.3% of the total NEV sales volume in 2025.

THE FUTURE TREND: SMART VEHICLES

China's NEV market has been entering a new stage of smart vehicles. There has been a surge in demand for smart vehicles as they can enhance vehicle safety, relieve traffic congestion, and enable more in-car entertainment.

According to the NDRC, smart vehicles refer to a new generation of cars that are equipped with advanced sensors and devices, use new technologies such as artificial intelligence, have autonomous driving solutions, and gradually become a new generation of smart mobile space and application terminals. The application of advanced technology is one

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of the key competitive advantages of smart vehicles compared to traditional vehicles because they are able to provide intelligent solutions to optimize users' driving and riding experience. According to the CIC Report, smart vehicles primarily possess three core capabilities.

- **Autonomous Driving.** Autonomous driving refers to self-driving or transport systems that can perform driving tasks without intervention by a human driver. According to CIC, the Society of Automotive Engineers categorizes autonomous driving into six levels ranging from Level 0 (no driving automation) to Level 5 (full driving automation). Currently, smart vehicles have realized the configuration of Level 2 autonomous driving and can generally achieve autonomous driving on highways and certain urban areas. Vehicles with Level 2 autonomous driving capability are typically equipped with adaptive cruise control, lane keeping assistance, and autobrake systems so that they can automatically steer, accelerate, and brake during the ride.

The following table compares all six levels of autonomous driving based on their respective human driver and system involvement.

| Autonomous Driving Level | Human Driver Involvement | System Involvement |
|---|--|--|
| Level 0 (no driving automation) | <ul style="list-style-type: none"> • Execution of steering and acceleration/deceleration • Monitoring of driving environment • Fallback performance of dynamic driving task | <ul style="list-style-type: none"> • None |
| Level 1 (driver assistance) | <ul style="list-style-type: none"> • Execution of steering and acceleration/deceleration • Monitoring of driving environment • Fallback performance of dynamic driving task | <ul style="list-style-type: none"> • Execution of steering and acceleration/deceleration (under certain conditions) |
| Level 2 (partial driving automation) | <ul style="list-style-type: none"> • Monitoring of driving environment • Fallback performance of dynamic driving task | <ul style="list-style-type: none"> • Execution of steering and acceleration/deceleration |
| Level 3 (conditional driving automation) | <ul style="list-style-type: none"> • Fallback performance of dynamic driving task | <ul style="list-style-type: none"> • Execution of steering and acceleration/deceleration • Monitoring of driving environment |

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| Autonomous Driving Level | Human Driver Involvement | System Involvement |
|--------------------------------------|--|---|
| Level 4 (high driving automation) | <ul style="list-style-type: none"> • Fallback performance of dynamic driving task | <ul style="list-style-type: none"> • Execution of steering and acceleration/deceleration • Monitoring of driving environment • Fallback performance of dynamic driving task (under certain conditions) |
| Level 5 (full driving automation) | <ul style="list-style-type: none"> • None | <ul style="list-style-type: none"> • Execution of steering and acceleration/deceleration • Monitoring of driving environment • Fallback performance of dynamic driving task |

- **OTA Upgrades.** OTA is a technology that updates vehicle software remotely through cloud network, which is a foundation of smart vehicles. Leading smart vehicle manufacturers can provide full-vehicle OTA to upgrade both software and firmware. OTA upgrades can distribute new features on demand without visiting a dealer, after the vehicle has been delivered. As autonomous driving is progressing toward full autonomous driving, OTA will be essential to enable the distribution and upgrades of these functions.
- **Intelligent Cabin with Human-Machine Interaction (HMI).** HMI is an indispensable capability for smart vehicles as it enables people to connect with and control vehicles smoothly. Major HMI features include voice recognition and interaction, touch panels, infotainment screens, and in-car applications. With ongoing integration of advanced computer systems into vehicles, their interfaces are becoming more complex and users are expected to control more functions of their vehicles.

In the future, with the continuous technological advancement in 5G, internet of things (IoT), big data, vehicle to everything (V2X), the concept and definition of smart vehicles will evolve and the threshold of smart vehicles will increase. Future smart vehicles will achieve autonomous driving beyond Level 2, full-vehicle OTA, and human emotional perception.

Smart Vehicle Market Size

According to the CIC Report, China's smart vehicle sales volume reached 3.3 million vehicles in 2020, representing 15.8% of the total passenger vehicle sales volume. Encouraged by favorable government policies, the penetration rate of smart vehicles in all vehicles is expected to exceed 50% in 2025 with an expected sales volume of 13.1 million vehicles, representing a CAGR of 31.8% between 2020 and 2025.

Main Drivers of China's Smart Vehicle Market

Supportive Regulations and Government Policies

Supportive regulations and government policies are expected to drive the development of smart vehicles in China. In recent years, the PRC government has continuously introduced favorable policies to support the development of artificial intelligence, 5G communication, and automotive industry, which benefit the development of smart vehicles. According to the Smart Car Development and Innovation Strategy issued by the NDRC, a comprehensive system of technological innovation, industrial ecology, infrastructure, regulations and standards, product supervision, and network security for smart vehicles will be formed by 2025.

Technology Advancement and Innovation

Technology advancement and innovation such as 5G, IoT, AI, cloud computing, and big data, represent the direction of the development of smart vehicles. The IoT PaaS, 5G, C-V2X, high-precision maps, autonomous driving, and artificial intelligence technologies not only optimize user experience, but also enhance the development of the smart vehicle industry. Technology advancement and innovation will promote the continuous growth of the smart vehicle market.

Increasing User Demand for Smart Vehicles

The growing acceptance of autonomous driving and HMI are fueling interest in smart vehicles. Compared to traditional vehicles, smart vehicles can respond to safety issues with precision in a shorter period of time, thereby effectively reducing the rate of traffic accidents, which caters to user demand. According to MIIT, smart vehicles are expected to reduce traffic accidents by 30% by 2025.

NEVs Are the Best Carriers of Intelligent Technologies

NEVs are the best carriers of intelligent technologies due to their modular body structure, high electrification, and high controllability. Compared to an ICE vehicle, an NEV has a simpler structure, which includes battery pack, electric motor, and electric controller, thus significantly reducing the number of parts and the complexity of circuit. A system of battery pack, electric motor, and electric controller can respond to commands quickly and achieve precise control. When new technologies are being adopted in the automotive industry, NEVs will be at an advantageous position to accelerate its transformation into intelligent products controlled by intelligent systems. The smart NEV sales volume increased from approximately 10,000 vehicles in 2017 to approximately 474,000 vehicles in 2020, representing 14.4% of total smart vehicle sales volume in 2020. The smart NEV market size is expected to grow from 2020 to 2025 at a CAGR of 57.7%, compared to a CAGR of 24.6% during the same period for smart ICE vehicle market size.

INDUSTRY OVERVIEW

Ranking of Smart NEVs in China

Li ONE ranked the second in China's smart NEV market in terms of sales volume in 2020, and accounted for a 7.1% share in the smart NEV market. The following table sets forth the ranking of smart NEVs in terms of sales volume in 2020.

Top 5 Smart NEVs
(in terms of sales volume in 2020)

| Ranking | Models | Energy Type | Sales Volume ⁽¹⁾ (Vehicles) | Market Share ⁽²⁾ |
|---------|---------------|-------------|--|-----------------------------|
| 1 | TESLA Model 3 | BEV | 140,311 | 29.6% |
| 2 | Li ONE | EREV | 33,457 | 7.1% |
| 3 | NIO ES6 | BEV | 27,832 | 5.9% |
| 4 | BYD Han EV | BEV | 21,167 | 4.5% |
| 5 | WM EX5 | BEV | 16,860 | 3.6% |

Source: CPCA, CIC

Notes:

(1) The sales volume refers to retail sales volume.

(2) The market share is calculated as retail sales volume divided by total smart NEV sales volume.

Competitive Landscape of Mid-Sized and Larger SUV Segment in Terms of Intelligence

In the mid-sized and larger SUV market, Li ONE significantly outperforms other premium mid-sized and larger SUVs in terms of level of intelligence. The following table sets forth key metrics to evaluate the intelligence score of premium mid-sized and larger SUVs in China.

Intelligence Level of Premium Mid-Sized and Larger SUV Segment in China (2020)⁽¹⁾⁽²⁾

| Intelligence Level | Model | Autonomous Driving | | | | Interactive Configuration | | |
|--------------------|-------------------|-------------------------|----------------|-----------------|-------------------|---------------------------|---|---------------------|
| | | Lane Keeping Assistance | Active Braking | Adaptive Cruise | Automatic Parking | OTA ⁽³⁾ | Full Coverage Voice Control System ⁽⁴⁾ | Interactive Display |
| Smart Models | Li ONE | Y | Y | Y | Y | Y (FOTA) | Y | 4 |
| | NIO ES8 | O | Y | O | O | Y (FOTA) | Y | 2 |
| | NIO ES6 | O | Y | O | O | Y (FOTA) | Y | 2 |
| | Mercedes-Benz GLE | O | Y | O | Y | Y | N | 2 |
| | Mercedes-Benz GLS | O | Y | O | Y | Y | N | 2/3 |
| | TESLA Model X | Y | Y | Y | O | Y (FOTA) | N | 2/3 |
| | BMW X5 | O | Y | O | Y | Y (FOTA) | N | 2/3 |
| | BMW X6 | O | Y | O | Y | Y (FOTA) | N | 2/3 |
| | BMW X7 | O | O | O | Y | Y (FOTA) | N | 2/3 |

INDUSTRY OVERVIEW

Intelligence Level of Premium Mid-Sized and Larger SUV Segment in China (2020)⁽¹⁾⁽²⁾

| Intelligence Level | Model | Autonomous Driving | | | | OTA ⁽³⁾ | Interactive Configuration | |
|--------------------|---------------------|-------------------------|----------------|-----------------|-------------------|--------------------|---|---------------------|
| | | Lane Keeping Assistance | Active Braking | Adaptive Cruise | Automatic Parking | | Full Coverage Voice Control System ⁽⁴⁾ | Interactive Display |
| Traditional Models | Mercedes-Benz EQC | O | Y | O | Y | N | N | 2 |
| | Audi e-tron | O | Y | O | N | N | N | 3 |
| | VOLVO XC90 | Y | Y | Y | O | N | N | 2 |
| | VOLKSWAGEN Teramont | O | O | O | O | N | N | 2 |
| | TOYOTA Highlander | N | O | O | N | N | N | 1 |
| | BMW X3 | O | Y | O | O | N | N | 2 |
| | Audi Q5L | O | Y | O | O | N | N | 2 |
| | Mercedes-Benz GLC | O | Y | O | Y | N | N | 2 |
| | BMW X4 | O | O | O | Y | N | N | 2 |
| | LEXUS RX | O | O | O | N | N | N | 2 |
| | LAND ROVER RANGE | | | | | | | |
| | ROVER | O | Y | O | O | N | N | 3/4 |
| | PORSCHE Cayenne | O | Y | O | N | N | N | 2 |

Source: CIC

Notes:

- (1) The vehicle intelligence level is analyzed based on the models available for sale as of December 31, 2020.
- (2) “Y” denotes standard configuration; “O” denotes optional configuration; and “N” denotes no configuration.
- (3) OTA technology can realize software update remotely through cloud network; FOTA is an advanced technology that can update both firmware and software remotely through cloud network.
- (4) A voice control system uses microphones to receive verbal commands from the users to realize certain vehicle functions. A full-coverage can locate and receive verbal commands from all seats in the vehicle.

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REGULATIONS AND APPROVALS COVERING THE MANUFACTURING OF BATTERY ELECTRIC PASSENGER VEHICLES

Pursuant to the Provisions on Administration of Investment in Automotive Industry (《汽車產業投資管理規定》), which was promulgated by the NDRC and became effective on January 10, 2019, enterprises are encouraged to, through equity investment and production capacity cooperation, facilitate mergers and restructuring, enter into strategic alliances, carry out joint research and development of products, organize joint manufacturing, and increase industrial integration. The leading resources in production, education, research, application, and other areas are encouraged to be integrated, and core enterprises in the automotive industry are encouraged to form industrial alliance and industrial consortium. In addition, these provisions categorize EREV as electric vehicles.

Pursuant to the Administrative Rules on the Admission of New Energy Vehicle Manufacturers and Products (《新能源汽車生產企業及產品准入管理規定》), to be included in the Vehicle Manufacturers and Products Announcement (《道路機動車輛生產企業及產品公告》), our vehicles must satisfy certain conditions, including, among others, meeting certain standards set out therein, meeting other safety and technical requirements specified by the MIIT, and passing inspections conducted by a state-recognized inspection institution. After these conditions are met and the application has been approved by the MIIT, the qualified vehicles will be included in the Vehicle Manufacturers and Products Announcement by the MIIT. If an NEV manufacturer manufactures or sells any model of an NEV without prior approval of the competent authorities, including the inclusion in the Vehicle Manufacturers and Products Announcement by the MIIT, it may be subject to penalties, including fines, forfeiture of any illegally manufactured and sold vehicles and spare parts, and revocation of its business licenses.

REGULATIONS ON COMPULSORY PRODUCT CERTIFICATION

Pursuant to the Administrative Regulations on Compulsory Product Certification (《強制性產品認證管理規定》) that was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine, or the QSIQ (which has been merged into the SAMR), and became effective on September 1, 2009, and the List of the First Batch of Products Subject to Compulsory Product Certification (《第一批實施強制性產品認證的產品目錄》) that was promulgated by the QSIQ in association with the State Certification and Accreditation Administration Committee and became effective on May 1, 2002, the QSIQ is responsible for the regulation and quality certification of automobiles. Automobiles and parts and components cannot be sold, exported, or used in operating activities until they are certified by designated PRC certification authorities as qualified products and granted certification marks.

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REGULATIONS ON ELECTRIC VEHICLE CHARGING INFRASTRUCTURE

Pursuant to the Guidance Opinions of the General Office of the State Council on Accelerating the Promotion and Application of the New Energy Vehicles (《國務院辦公廳關於加快新能源汽車推廣應用的指導意見》), which became effective on July 14, 2014, the Guidance Opinions of the General Office of the State Council on Accelerating the Development of Charging Infrastructures of the Electric Vehicles (《國務院辦公廳關於加快電動汽車充電基礎設施建設的指導意見》), which became effective on September 29, 2015, and the Guidance on the Development of Electric Vehicle Charging Infrastructure (2015-2020) (《電動汽車充電基礎設施發展指南(2015-2020年)》), which became effective on October 9, 2015, and the Development Plan for the New Energy Vehicle Industry (2021-2025) (《新能源汽車產業發展規劃(2021-2035年)》), which became effective on October 20, 2020, the PRC government encourages the construction and development of charging infrastructure for electric vehicles, such as charging stations and battery swap stations, and only centralized charging and battery replacement power stations are required to obtain approvals for construction permits from the relevant authorities. The Circular on Accelerating the Development of Electric Vehicle Charging Infrastructures in Residential Areas (《關於加快居民區電動汽車充電基礎設施建設的通知》) promulgated on July 25, 2016 further provides that the operators of electric vehicle charging and battery swap infrastructure are required to carry liability insurance for the safety of their facilities. The manufacturers of charging and battery swap facilities and electric vehicle manufacturers are encouraged to purchase liability insurance on charging safety to protect individual users.

REGULATIONS ON AUTOMOBILE SALES

Pursuant to the Administrative Measures on Automobile Sales (《汽車銷售管理辦法》) promulgated by the MOFCOM, which became effective on July 1, 2017, automobile suppliers and dealers are required to file with the relevant authorities through the national automobile circulation information system operated by the competent commerce department within 90 days after the receipt of a business license. Where there is any change to the information filed, automobile suppliers and dealers must update such information within 30 days after such change.

REGULATIONS ON THE RECALL OF DEFECTIVE AUTOMOBILES

On October 22, 2012, the State Council promulgated the Administrative Provisions on Defective Automotive Product Recalls (《缺陷汽車產品召回管理條例》), which became effective on January 1, 2013 and was amended on March 2, 2019. The product quality supervision department of the State Council is responsible for the supervision and administration of recalls of defective automotive products nationwide. Pursuant to these administrative provisions, manufacturers of automotive products are required to take measures to eliminate defects in the products they sell and recall all defective automotive products. Failure to recall such products may result in a compulsory order to recall the defective products from the quality supervisory authority of the State Council. If an operator conducting sales, leasing, or repairs of vehicles discovers any defect in any automotive products, it must cease

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to sell, lease, or use the defective products and must assist manufacturers in the recall of those products. Manufacturers must recall their products through publicly available channels and publicly announce the defects. Manufacturers must take measures to eliminate or cure defects, including rectification, identification, modification, replacement, or return of the products. Manufacturers that attempt to conceal defects or do not recall defective automotive products in accordance with the relevant regulations will be subject to penalties, including fines, forfeiture of any income earned in violation of law, and revocation of licenses.

Pursuant to the Implementation Rules on the Administrative Provisions on Defective Automotive Product Recalls (《缺陷汽車產品召回管理條例實施辦法》), which became effective on January 1, 2016 and were recently amended on October 23, 2020, if a manufacturer is aware of any potential defect in its automobiles, it must investigate in a timely manner and report the results of such investigation to the SAMR. Where any defect is found during the investigation, the manufacturer must cease to manufacture, sell, or import the relevant automotive products and recall such products in accordance with applicable laws and regulations.

On November 23, 2020, the SAMR issued the Circular on Further Improving the Regulation of Recall of Automobile with OTA Technology (《市場監管總局辦公廳關於進一步加強汽車遠程升級(OTA)技術召回監管的通知》), pursuant to which automobiles manufacturers that provide technical services through OTA are required to complete filing with the SAMR and those who have provided such services through OTA must complete such filing before December 31, 2020. In addition, if an automaker uses OTA technology to eliminate defects and recalls their defective products, it must make a recall plan and completes a filing with the SAMR.

REGULATIONS ON PRODUCT LIABILITY

Pursuant to the PRC Product Quality Law (《中華人民共和國產品質量法》), which was promulgated on February 22, 1993 and amended on July 8, 2000, August 27, 2009, and December 29, 2018, a manufacturer is prohibited from producing or selling products that do not meet applicable standards and requirements for safeguarding human health and ensuring human and property safety. Products must be free from unreasonable dangers threatening human and property safety. Where a defective product causes personal injury or property damage, the aggrieved party may make a claim for compensation from the manufacturer or the seller of the product. Manufacturers and sellers of non-compliant products may be ordered to cease the production or sale of the products and could be subject to confiscation of the products and fines. Earnings from sales in violation of such standards or requirements may also be confiscated, and in severe cases, an offender's business license may be revoked.

FAVORABLE GOVERNMENT POLICIES RELATING TO NEVS IN CHINA

Government Subsidies for NEV Purchasers

On April 22, 2015, the MOF, the Ministry of Science and Technology, the MIIT, and the NDRC jointly issued the Circular on the Financial Support Policies on the Promotion and Application of New Energy Vehicles in 2016-2020 (《財政部、科技部、工業和信息化部、發展改革委關於2016–2020年新能源汽車推廣應用財政支持政策的通知》), which became effective on the same day. This circular provides that those who purchase NEVs specified in the Catalog of Recommended New Energy Vehicle Models for Promotion and Application (《新能源汽車推廣應用工程推薦車型目錄》) by the MIIT from 2016 to 2020 may obtain subsidies from the PRC government. Pursuant to this circular, a purchaser may purchase an NEV from a seller by paying the original price minus the subsidy amount, and the seller may obtain the subsidy amount from the government after such NEV is sold to the purchaser. Li ONE was added to this catalog by the MIIT on June 11, 2019 and is eligible for such subsidies. The circular also provided a preliminary phase-out schedule for the provision of subsidies.

On December 29, 2016, the MOF, the Ministry of Science and Technology, the MIIT, and the NDRC jointly issued the Circular on Adjusting the Subsidy Policy for the Promotion and Application of New Energy Vehicles (《財政部、科技部、工業和信息化部、發展改革委關於調整新能源汽車推廣應用財政補貼政策的通知》), which became effective on January 1, 2017, to adjust the existing subsidy standard for NEV purchasers by capping the local subsidies at 50% of the national subsidy amount and further specifying that the national subsidies for purchasers of certain NEVs (except for fuel cell vehicles) from 2019 to 2020 will be reduced by 20% from the 2017 subsidy standards.

The subsidy standard is reviewed and updated on an annual basis. On April 23, 2020, the MOF, the Ministry of Science and Technology, the MIIT, and the NDRC jointly issued the Circular on Improving the Subsidy Policy for the Promotion and Application of New Energy Vehicles (《財政部、工業和信息化部、科技部、發展改革委關於完善新能源汽車推廣應用財政補貼政策的通知》), pursuant to which, the original end date of subsidies for NEV purchasers will be extended by two years to the end of 2022 and the national subsidies for NEVs will be reduced in 10% increments each year, commencing from 2020. Only NEVs with an MSRP of RMB300,000 or less before subsidies or equipped with battery swapping module are eligible for such subsidies starting from July 2020, and the MSRP of Li ONE is higher than the threshold. In addition, the circular also limits the number of vehicles eligible for subsidies each year to approximately 2 million. On December 31, 2020, the MOF, the Ministry of Science and Technology, the MIIT, and the NDRC jointly issued the Circular on Further Improving the Subsidy Policies for the Promotion and Application of New Energy Vehicles (《財政部、工業和信息化部、科技部、發展改革委關於進一步完善新能源汽車推廣應用財政補貼政策的通知》), which became effective on January 1, 2021. Pursuant to this circular, the national subsidies for NEVs will be reduced in 20% increments in 2021 compared with that of 2020.

Exemption of Vehicle Purchase Tax

On December 26, 2017, the MOF, the SAT, the MIIT, and the Ministry of Science and Technology jointly issued the Announcement on Exemption of Vehicle Purchase Tax for New Energy Vehicle (《財政部、稅務總局、工業和信息化部、科技部關於免徵新能源汽車車輛購置稅的公告》), pursuant to which, from January 1, 2018 to December 31, 2020, the vehicle purchase tax applicable to ICE vehicles is not imposed on purchases of qualified NEVs listed in the Catalog of New Energy Vehicle Models Exempt from Vehicle Purchase Tax (《免徵車輛購置稅的新能源汽車車型目錄》) issued by the MIIT, including NEVs listed before December 31, 2017. Li ONE has been added to this catalog, and the purchasers of Li ONE thus may enjoy this tax exemption.

On April 16, 2020, the MOF, the SAT, and the MIIT jointly issued the Announcement on Exemption Policy of Vehicle Purchase Tax for New Energy Vehicle (《財政部、稅務總局、工業和信息化部關於新能源汽車免徵車輛購置稅有關政策的公告》), which became effective on January 1, 2021, pursuant to which the exemption of vehicle purchase tax for the NEVs will be extended to December 31, 2022.

Non-Imposition of Vehicle and Vessel Tax

Pursuant to the Preferential Vehicle and Vessel Tax Policies for Energy-Saving and New Energy Vehicles and Vessels jointly promulgated by the MOF, the Ministry of Transport, the SAT, and the MIIT (《財政部、稅務總局、工業和信息化部、交通運輸部關於節能新能源車船享受車船稅優惠政策的通知》) on July 10, 2018, NEVs, including battery electric commercial vehicles, plug-in (including extended-range) hybrid electric vehicles, fuel cell commercial vehicles are exempt from vehicle and vessel tax, whereas BEVs and fuel cell passenger vehicles are not subject to vehicle and vessel tax. The qualified vehicles are listed in the Catalog of New Energy Vehicle Models Exempt from Vehicle and Vessel Tax (《享受車船稅減免優惠的節約能源使用新能源汽車車型目錄》) issued by the MIIT and SAT from time to time. Li ONE was listed in this catalog issued by the MIIT and SAT on July 1, 2019 and is thus exempt from vehicle and vessel tax.

NEV License Plates

In recent years, in order to control the number of motor vehicles on the road, certain local governments in China, such as Shanghai, Tianjin, Shenzhen, Guangzhou, and Hangzhou, have issued restrictions on the issuance of vehicle license plates. These restrictions generally do not apply to the issuance of license plates for NEVs (including EREVs), which makes it easier for NEV purchasers to obtain license plates. For example, in Shanghai, local authorities will issue new license plates to qualified NEV purchasers pursuant to the Implementation Measures on Encouraging Purchase and Use of New Energy Vehicles in Shanghai (《上海市鼓勵購買和使用新能源汽車實施辦法》), without requiring such qualified purchasers to go through certain license-plate bidding processes and to pay license-plate purchase fees as compared with ICE vehicle purchasers. However, in Beijing, EREVs are treated as ICE vehicles for the purposes of obtaining license plates. Potential EREV purchasers in Beijing must participate in a lottery

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for a purchase permit, instead of applying for the NEV license plates based on the quota determined by the local authorities in Beijing. Pursuant to the Implementation Measures on Encouraging and Using New Energy Vehicles in Shanghai (《上海市鼓勵購買和使用新能源汽車實施辦法》) issued by the local counterpart of the NDRC and other four governmental authorities in Shanghai in February 2021, EREVs will not be considered as the NEVs which are exempt from the license plate restrictions starting from January 1, 2023.

Policies Relating to Incentives for Electric Vehicle Charging Infrastructure

On January 11, 2016, the MOF, the Ministry of Science and Technology, the MIIT, the NDRC, and the National Energy Administration jointly promulgated the Circular on Incentive Policies on the Charging Infrastructures of New Energy Vehicles and Strengthening the Promotion and Application of New Energy Vehicles During the 13th Five-year Plan Period (《財政部、科技部、工業和信息化部等關於“十三五”新能源汽車充電基礎設施獎勵政策及加強新能源汽車推廣應用的通知》), which became effective on January 11, 2016. Pursuant to this circular, the central finance department is expected to provide certain local governments with funds and subsidies for the construction and operation of charging facilities and other relevant charging infrastructure.

Certain local governments have also implemented incentive policies for the construction and operation of charging infrastructure. For example, pursuant to the Circular on Implementation of Interim Rules on the Examination and Support of the Operation of Electronic Vehicles Charging Infrastructures for Public Use in Beijing (《關於印發實施北京市電動汽車社會公用充電設施運營考核獎勵暫行辦法的通知》), from September 25, 2018 to December 31, 2020, certain operators of charging facilities for public use may be eligible for subsidies based on their charging capacity and operation review results. Likewise, such subsidies were also implemented in the Implementation Rules on the Examination and Support of the Operation of Electronic Vehicles Charging Infrastructures for Public Use from 2018 to 2019 in Beijing (《2018-2019年度北京市電動汽車社會公用充電設施運營考核獎勵實施細則》) that became effective on September 28, 2018 and the Implementation Rules on the Examination and Support of the Operation of Electronic Vehicles Charging Infrastructures for Public Use from 2019 to 2020 in Beijing.

CAFC and NEV Credit Schemes for Vehicle Manufacturers and Importers

On September 27, 2017, the MIIT, the MOF, the MOFCOM, the PRC General Administration of Customs and the QSIQ jointly promulgated the Measure 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》), pursuant to which, each of the vehicle manufacturers and vehicle importers above a certain scale is required to maintain its new energy vehicles credits, or NEV credits, above zero, regardless of whether NEVs or ICE vehicles are manufactured or imported by it, and NEV credits can be earned only by manufacturing or importing NEVs. Therefore, NEV manufacturers will enjoy preferences in obtaining and calculating of NEV credits.

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NEV credits equal to the aggregate actual scores of a vehicle manufacturer or a vehicle importer minus its aggregate targeted scores. The targeted scores shall be the product obtained by multiplying annual production/import volume of fuel energy vehicles of a vehicle manufacturer or a vehicle importer by the NEV credit ratio set by the MIIT, while the actual scores are to be the product obtained by multiplying the score of each new energy vehicle type by respective new energy vehicle production/import volume. Excess positive NEV credits are tradable and may be sold to other enterprises through a credit management system established by the MIIT. Negative NEV credits can be offset by purchasing excess positive NEV credits from other manufacturers or importers. As a manufacturer that will only manufacture new energy vehicles, after we obtain our own manufacturing license, we will be able to earn NEV credits by manufacturing new energy vehicles through our future manufacturing plant on each vehicle manufactured, and may sell our excess positive NEV credits to other vehicle manufacturers or importers. On June 15, 2020, the MIIT, the MOF, the MOFCOM, the PRC General Administration of Customs and the QSIQ jointly promulgated the Amendment to Measure 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》). The newly erected measures, which became effective on January 1, 2021, adjusts the calculation methods of credits of new energy passenger vehicles and provides the requirements of NEV credits from 2021 to 2023.

REGULATIONS ON AUTONOMOUS DRIVING

On April 3, 2018, the MIIT, the Ministry of Public Security, and the Ministry of Transport issued the Circular on the Norms on Administration of Road Testing of Intelligent Connected Vehicles (Trial Implementation) (《智能網聯汽車道路測試管理規範(試行)》) (the “**Circular No. 66**”), which is the primary regulation governing protocol of road testing of intelligent connected vehicles in the PRC. Pursuant to the Circular No. 66, any entity intending to conduct a road testing of intelligent connected vehicles must apply for and obtain a road-testing certificate and a temporary license plate for each tested car. To qualify for these required licenses, an applicant entity must satisfy, among others, the following requirements: (i) it must be an independent legal person registered under PRC law with the capacity to conduct manufacturing, technological research or testing of automobiles and automobile parts, which has established protocol to test and assess the performance of intelligent connected system and is capable of conducting real-time remote monitor of the tested cars; (ii) the vehicle under road testing must be equipped with a driving system that can switch between autonomous pilot model and human driving model in a safe, quick and simple manner and allows human driver to take control of the vehicle any time immediately when necessary; (iii) the tested vehicle must be equipped with the function of recording, storing and real-time monitoring the condition of the vehicle and is able to transmit real-time data of the vehicle, such as the driving model, location and speed; (iv) the applicant entity must sign an employment contract or a labor service contract with the driver of the tested vehicle, who must be a licensed driver with more than three years’ driving experience and a track record of safe driving and is familiar with the testing protocol for autonomous driving system and proficient in operating the system; and (v) the applicant entity must insure each tested vehicle for at least RMB5 million against car accidents or provide a letter of guarantee covering the same. During testing, the testing entity

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should post a noticeable identification logo for autonomous driving test on each tested car and should not use autonomous driving model unless in the permitted testing areas specified in the road-testing certificate. If the testing entity intends to conduct road testing in the region beyond the administrative territory of the certificate issuing authority, it must apply for a separate road-testing certificate and a separate temporary license plate from the relevant authority supervising the road-testing of autonomous cars in that region. In addition, the testing entity is required to submit to the road-testing certificate issuing authority a periodical testing report every six months and a final testing report within one month after completion of the road testing. In the case of a car accident causing severe injury or death of personnel or vehicle damage, the testing entity must report the accident to the relevant authority within 24 hours and submit a comprehensive analysis report in writing covering cause analysis, final liability allocation results, etc. within five working days after the traffic enforcement agency determines the liability for the accident.

REGULATIONS ON FOREIGN INVESTMENT IN CHINA

Regulations on Foreign Investment Restrictions

Investment activities in China by foreign investors are principally governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment, or the Negative List and the Catalog of Industries for Encouraging Foreign Investment, or the Encouraging Catalog, which were promulgated and are amended from time to time by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog classify industries into three categories with regard to foreign investment: (i) “encouraged,” (ii) “restricted,” and (iii) “prohibited.”

The currently effective Negative List is the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (《外商投資准入特別管理措施(負面清單)(2020年版)》), or the 2020 Negative List, which was published by the MOFCOM and NDRC on June 23, 2020 and became effective on July 23, 2020. In addition, in December 2020, the MOFCOM and the NDRC also jointly promulgated the Encouraged Foreign Investment Industry Catalog (2020) (《鼓勵外商投資產業目錄(2020年版)》), which became effective on January 2021. Industries that are not listed in the 2020 Negative List are permitted areas for foreign investments and are generally open to foreign investment unless specifically restricted by other PRC regulations. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold majority interests in such joint ventures. In addition, projects in the restricted category may be subject to higher-level government approval requirements. Foreign investors are not allowed to invest in industries in the prohibited category. For example, foreign investors are prohibited from investing in companies engaged in Internet culture businesses (except for music) and radio and television program production businesses under the 2020 Negative List. The provision of value-added telecommunications services falls in the restricted category under the 2020 Negative List and the percentage of foreign ownership cannot exceed 50%, except for e-commerce, domestic multi-party communications, and store-and-forward call centers.

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Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) promulgated by the State Council in December 2001 and most recently amended in February 2016, the ultimate foreign equity ownership in a value-added telecommunications services provider cannot exceed 50%. Moreover, for a foreign investor to own any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, and obtain approvals from the MIIT and the MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. The MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-Added Telecommunications Business (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) in July 2006, which reiterate the regulations on foreign investment in telecommunications businesses and require foreign investors to set up foreign investment enterprises, or FIEs and obtain telecommunications business operating licenses to conduct any value-added telecommunications business in China.

To comply with PRC laws and regulations, we rely on contractual arrangements with our VIEs to operate value-added telecommunications services in China.

Foreign Investment Law

On March 15, 2019, the NPC promulgated the Foreign Investment Law (《中華人民共和國外商投資法》), which came into effect on January 1, 2020 and replaced the PRC Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》), and the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》), together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic-invested enterprises in China. The Foreign Investment Law establishes the basic framework for the access to, and the promotion, protection, and administration of foreign investments in view of investment protection and fair competition.

Pursuant to the Foreign Investment Law (《中華人民共和國外商投資法》), “foreign investment” refers to investment activities directly or indirectly conducted by one or more natural persons, business entities, or otherwise organizations of a foreign country within China, or foreign investors, and the investment activities include the following situations: (i) a foreign investor, individually or collectively with other investors, establishes an FIE in China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other similar rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project in China; and (iv) investments in other means as provided by laws, administrative regulations, or the State Council.

Pursuant to the Foreign Investment Law (《中華人民共和國外商投資法》), the State Council will publish or approve to publish a catalog for special administrative measures, or a “negative list”. The Foreign Investment Law grants national treatment to FIEs, except for those

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FIEs that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list.” Because the “negative list” has yet to be published, it is unclear whether it will differ from the current special administrative measures for market access of foreign investment (Negative List). The Foreign Investment Law provides that FIEs operating in foreign restricted or prohibited industries will require market entry clearance and other approvals from relevant PRC governmental authorities.

Furthermore, the Foreign Investment Law (《中華人民共和國外商投資法》) provides that FIEs established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementation of the Foreign Investment Law.

In addition, the Foreign Investment Law (《中華人民共和國外商投資法》) also provides several protective rules and principles for foreign investors and their investments in China, including, among others, that local governments must abide by their commitments to the foreign investors; FIEs are allowed to issue stocks and corporate bonds; expropriation or requisition of the investment of foreign investors is prohibited except for special circumstances, in which case statutory procedures must be followed and fair and reasonable compensation must be made in a timely manner; mandatory technology transfer is prohibited; and the capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors in China may be freely remitted inward and outward in Renminbi or foreign currencies. Also, foreign investors or FIEs should be imposed legal liabilities for failing to report investment information in accordance with the requirements.

On December 26, 2019, the PRC State Council approved the Implementation Rules of Foreign Investment Law (《中華人民共和國外商投資法實施條例》), which came into effect on January 1, 2020. The Implementation Rules of Foreign Investment Law restates certain principles of the Foreign Investment Law (《中華人民共和國外商投資法》) and further provides that, among others, (i) if the legal form or the governing structure of an FIE established prior to the effective date of the Foreign Investment Law does not comply with the compulsory provisions of the PRC Company Law (《中華人民共和國公司法》) or the PRC Partnership Enterprises Law (《中華人民共和國合夥企業法》), such FIE should complete amendment registration accordingly no later than January 1, 2025; if it fails to do so, the enterprise registration authority will not process other registration matters of the FIE and may publicize such non-compliance; and (ii) the provisions regarding transfer of equity interests, distribution of profits and remaining assets as stipulated in the joint venture contracts of an existing FIE may survive the Foreign Investment Law during its joint venture term.

REGULATIONS ON VALUE-ADDED TELECOMMUNICATIONS SERVICES

In 2000, the State Council promulgated the PRC Telecommunications Regulations (《中華人民共和國電信條例》), or the Telecommunications Regulations, which was most recently amended in February 2016 and provides a regulatory framework for telecommunications services providers in China. The Telecommunications Regulations categorize all

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telecommunications businesses in China as either basic or value-added telecommunications services. Value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructure. Pursuant to the Classified Catalog of Telecommunications Services (《電信業務分類目錄》), an attachment to the Telecommunications Regulations, which was most recently updated in June 2019 by the MIIT, internet information services, or ICP services, are classified as value-added telecommunications services. Under the Telecommunications Regulations and relevant administrative measures, commercial operators of value-added telecommunications services must first obtain an ICP license from the MIIT or its provincial level counterparts. Otherwise, such an operator might be subject to sanctions, including rectification orders and warnings, fines, confiscation of illegal gains, and, in case of significant infringement, orders to close the website.

Pursuant to the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), promulgated by the State Council in 2000 and amended in 2011, “internet information services” refer to the provision of information through the internet to online users, and are divided into “commercial internet information services” and “non-commercial internet information services.” A commercial ICP service operator must obtain an ICP license before engaging in any commercial ICP services in China, while the ICP license is not required if the operator will only provide internet information on a non-commercial basis.

In addition to the regulations and measures above, the provision of commercial internet information services on mobile internet applications are regulated by the Administrative Provisions on Information Services of Mobile Internet Applications (《移動互聯網應用程序信息服務管理規定》), promulgated by the State Internet Information Office in June 2016. Information services providers of mobile internet applications are subject to these provisions, including acquiring relevant qualifications and being responsible for the management of information security.

We provide certain paid membership and other paid premium services to the owners of the vehicles through our websites and mobile application, which constitute commercial internet information services as defined in the above provisions. Beijing CLX, has obtained an ICP License that will remain effective until May 29, 2024.

REGULATIONS ON CONSUMER RIGHTS PROTECTION

Our business is subject to a variety of consumer protection laws, including the PRC Consumer Rights and Interests Protection Law (《中華人民共和國消費者權益保護法》), which was amended in 2013 and became effective on March 15, 2014. It imposes stringent requirements and obligations on business operators. Failure to comply with these consumer protection laws could subject us to administrative sanctions, such as the issuance of a warning, confiscation of illegal income, imposition of fines, an order to cease business operations, revocation of business licenses, and potential civil or criminal liabilities.

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REGULATIONS ON INTERNET INFORMATION SECURITY AND PRIVACY PROTECTION

In November 2016, the Standing Committee of the NPC promulgated the PRC Cybersecurity Law (《中華人民共和國網絡安全法》), or the Cybersecurity Law, which became effective on June 1, 2017. The Cybersecurity Law requires that network operators, including internet information services providers, take technical measures and other necessary measures in accordance with applicable laws and regulations and the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of its networks. We are subject to such requirements as we are operating a website and mobile application and providing certain internet services mainly through our mobile application. The Cybersecurity Law further requires internet information services providers to formulate contingency plans for network security incidents, report to the competent departments immediately upon the occurrence of any incident endangering cybersecurity, and take corresponding remedial measures.

Internet information services providers are also required to maintain the integrity, confidentiality, and availability of network data. The Cybersecurity Law reaffirms the basic principles and requirements specified in other existing laws and regulations on personal data protection, such as the requirements on the collection, use, processing, storage, and disclosure of personal data, and internet information services providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent the personal information from being divulged, damaged, or lost. Any violation of the Cybersecurity Law may subject an internet information services provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancelation of filings, shutdown of websites, or criminal liabilities.

The Decision on Maintenance of Cybersecurity (《關於維護互聯網安全的決定》) enacted by the Standing Committee of the National People's Congress on December 28, 2000, as amended in August 2009, stipulates, among others, that the following activities conducted via internet are subject to criminal penalty if they constitute crimes under PRC law: (i) hacking into a computer or system of strategic importance; (ii) intentionally inventing and spreading destructive programs such as computer viruses to attack computer systems and communications networks, thus damaging computer systems and the communications networks; (iii) disconnecting computer networks or communications services without authorization in violation of laws and regulations; (iv) divulging state secrets; (v) spreading false commercial information; or (vi) infringing intellectual property rights via internet.

The Provisions on Technological Measures for Cybersecurity Protection (《互聯網安全保護技術措施規定》) promulgated on December 13, 2005 by the Ministry of Public Security requires internet service providers and organizations that use interconnection services to implement technical measures for cybersecurity protection from any threat to network security, such as computer viruses and network attacks and breaches. All internet access service providers are required to take measures to keep a record of and preserve user registration information. Under these measures, value-added telecommunications services license holders

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must regularly update information security and content control systems for their websites and must also report any public dissemination of prohibited content to local public security authorities. If a value-added telecommunications services license holder violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

Pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》) issued by the Standing Committee of the National People's Congress in 2012 and the Provisions on the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》) issued by the MIIT in 2013 and the Cybersecurity Law, any collection and use of a user's personal information must be consensual, legal, reasonable, and necessary, and must be limited to specified purposes, methods, and scopes. An internet information service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering with, or destroying any such information, or selling or providing such information to other parties. An internet information service provider is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage, or loss. In case of any actual or potential leakage of user personal information, internet information service providers must take immediate remedial measures and make timely report to the relevant regulatory authorities and inform users in accordance with the regulations. Any violation of these laws and regulations may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancelation of filings, shutdown of websites, or even criminal liabilities.

Pursuant to the Notice of the Supreme People's Court, the Supreme People's Procuratorate, and the Ministry of Public Security on Lawfully Punishing Criminal Activities Infringing upon the Personal Information of Citizens (《最高人民法院、最高人民檢察院、公安部關於依法懲處侵害公民個人信息犯罪活動的通知》) issued in 2013 and the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Regarding Legal Application in Criminal Cases Infringing upon the Personal Information of Citizens (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》) issued on May 8, 2017 and effective on June 1, 2017, the following activities may constitute the crime of infringing upon a citizen's personal information: (i) providing a citizen's personal information to specified persons or releasing a citizen's personal information online or through other methods in violation of relevant regulations and rules; (ii) providing legitimately collected information relating to a citizen to others without such citizen's consent (unless the information is processed, not traceable to a specific person, and not recoverable); (iii) collecting a citizen's personal information in violation of applicable regulations and rules when performing a duty or providing services; or (iv) collecting a citizen's personal information by purchasing, accepting, or exchanging such information in violation of applicable regulations and rules.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision Against the Illegal Collection and Use of Personal Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公

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告》) issued on January 23, 2019, app operators should collect and use personal information in compliance with the Cybersecurity Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen the protection of personal information. Furthermore, app operators must not force their users to make authorization by means of bundling, suspending installation, or in other default forms and should not collect personal information in (i) violation of laws or regulations, or (ii) breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon Users' Personal Rights and Interests (《關於開展App侵害用戶權益專項整治工作的通知》) issued by the MIIT on October 31, 2019. On November 28, 2019, the Cyberspace Administration of China, the MIIT, the Ministry of Public Security, and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information (《App違法違規收集使用個人信息行為認定方法》). This regulation further illustrates certain commonly seen illegal practices of app operators in terms of the protection of personal information, including: "failure to publicize rules for collecting and using personal information," "failure to expressly state the purpose, manner, and scope of collecting and using personal information," "collection and use of personal information without consent of users of the app," "collecting personal information irrelevant to the services provided by the app in violation of the principle of necessity," "provision of personal information to others without users' consent," "failure to provide the function of deleting or correcting personal information as required by laws," and "failure to publish information such as methods for complaints and reporting." Any of the following acts, among others, of an app operator will constitute "collection and use of personal information without consent of users:" (i) collecting any user's personal information or activating the permission for collecting any user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting the personal information of any user who explicitly refuses such collection, or repeatedly seeking any user's consent such that the user's normal use of such app is disturbed; (iii) collecting any user's personal information that has been actually collected by the app operator or activating the permission for collecting any user's personal information by the app operator that is beyond the scope of personal information authorized to be collected; (iv) seeking any user's consent in a non-explicit manner; (v) modifying any user's settings for activating the permission for collecting any personal information without such user's consent; (vi) using users' personal information and any algorithms to directionally push any information, without providing the option of non-directed pushing of such information; (vii) misleading users to permit collecting their personal information or activating the permission for collecting the users' personal information by improper methods, such as fraud and deception; (viii) failing to provide users with the means and methods to withdraw their permission for collecting personal information; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by the app operator.

On October 21, 2020, the Standing Committee of the National Peoples' Congress issued the PRC Personal Information Protection Law (Draft for Comments) (《中華人民共和國個人信息保護法(草案)》), which integrates the scattered rules with respect to personal information rights and privacy protection. The draft law aims at protecting the personal information rights and interests, regulating the processing of personal information, ensuring the orderly and free

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flow of personal information in accordance with the law, and promoting the reasonable use of personal information. Personal information, as defined in the draft law, refers to information related to identified or identifiable natural persons and recorded by electronic or other means, but excluding the anonymized information. The draft law provides the circumstances under which a personal information processor could process personal information, which include but not limited to, where the consent of the individual concerned is obtained and where it is necessary for the conclusion or performance of a contract to which the individual is a contractual party. It also stipulates certain specific rules with respect to the obligations of a personal information processor, such as to inform the purpose and method of processing to the individuals, and the obligation of the third party who has access to the personal information by way of co-processing or delegation. As of the date of this prospectus, this draft law has not yet come into effect.

Pursuant to the Measures for Cybersecurity Review (《網絡安全審查辦法》) promulgated by the Cyberspace Administration of China and certain other PRC regulatory authorities in April 2020, which took effect in June 2020, critical information infrastructure operators must pass a cybersecurity review when purchasing network products and services that affect or may affect national security. On July 10, 2021, the Cyberspace Administration of China published the Measures for Cybersecurity Review (Revised Draft for Comments) (《網絡安全審查辦法》(修訂草案徵求意見)). Pursuant to the draft measures, critical information infrastructure operators that purchase network products and services and data processing operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review. The draft measures further elaborates the factors to be considered when assessing the national security risks of the relevant activities, including, among others: (i) the risk of core data, important data, or a large amount of personal information being stolen, leaked, destroyed, and illegally used or exited the country, and (ii) the risk of critical information infrastructure, core data, important data, or a large amount of personal information being affected, controlled, or maliciously used by foreign governments after listing abroad. As of the date of this prospectus, the draft measures has not come into effect.

On June 10, 2021, the Standing Committee of the National People's Congress promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which will take effect in September 2021. The Data Security Law introduces a data classification and hierarchical protection system based on the materiality of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of persons or entities when such data is tampered with, destroyed, divulged, or illegally acquired or used. It also provides for a security review procedure for the data activities which may affect national security.

On May 12, 2021, the Cyberspace Administration of China issued the Several Provisions on Automobile Data Security Management (Draft for Comment) (汽車數據安全管理若干規定(徵求意見稿)), which further elaborates the principles and requirements for the protection of personal information and important data in the automobile industry scenarios, and defines any enterprise or institution engaged in the automobile design, manufacture, and service as an

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operator. Such operator is required to process personal information or important data in accordance with applicable laws during the process of design, production, sales, operation, maintenance, and management of automobile.

REGULATIONS ON E-COMMERCE

On August 31, 2018, the Standing Committee of the NPC promulgated the PRC E-Commerce Law (《中華人民共和國電子商務法》), which became effective on January 1, 2019. The E-Commerce Law establishes the regulatory framework for the e-commerce sector in China for the first time by laying out certain requirements on e-commerce platform operators. Pursuant to the E-Commerce Law, e-commerce platform operators are required to prepare a contingency plan for cybersecurity incidents and take technological measures and other measures to prevent online illegal and criminal activities. The E-Commerce Law also expressly requires e-commerce platform operators to take necessary actions to ensure fair dealing on their platforms to safeguard the legitimate rights and interests of consumers, including to prepare platform service agreements, transaction information record-keeping, and transaction rules, to prominently display such documents on the platform's website, and to keep such information for no less than three years following the completion of a transaction. Where the e-commerce platform operators conduct self-operated business on their platforms, they need to distinguish and mark their self-operated business from the businesses of the business operators using the platform in a clear manner and should not mislead consumers. The e-commerce platform operators should bear civil liability of a commodity seller or service provider for the business marked as self-operated, pursuant to the law.

REGULATIONS ON LAND AND THE DEVELOPMENT OF CONSTRUCTION PROJECTS

Regulations on Land Grants

Under the Interim Regulations on Assignment and Transfer of the Rights to the Use of the State-Owned Urban Land (《城鎮國有土地使用權出讓和轉讓暫行條例》), which was promulgated by the State Council on May 19, 1990 and amended on November 29, 2020, a system of assignment and transfer of the right to use state-owned land was adopted. A land user must pay land premiums to the state as consideration for the assignment of the right to use a land site within a certain term, and the land user who obtained the right to use the land may transfer, lease out, mortgage, or otherwise commercially exploit the land within the term of use. Under the Interim Regulations on Assignment and Transfer of the Rights to the Use of the State-Owned Urban Land and the PRC Urban Real Estate Administration Law (《中華人民共和國城市房地產管理法》), the local land administration authority may enter into an assignment contract with the land user for the assignment of land use rights. The land user is required to pay the land premium as provided in the assignment contract. After the full payment of the land premium, the land user must register with the land administration authority and obtain a land use rights certificate that evidences the acquisition of land use rights.

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Regulations on Planning of a Construction Project

Pursuant to the Regulations on Planning Administration Regarding Assignment and Transfer of the Rights to Use of the State-Owned Land in Urban Area (《城市國有土地使用權出讓轉讓規劃管理辦法》) promulgated by the Ministry of Construction in December 1992 and amended in January 2011, a construction land planning permit should be obtained from the municipal planning authority with respect to the planning and use of land. Pursuant to the PRC Urban and Rural Planning Law (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of the NPC on October 28, 2007 and amended on April 24, 2015 and April 23, 2019, a construction work planning permit must be obtained from the competent urban and rural planning government authority for the construction of any structure, fixture, road, pipeline, or other engineering project within an urban or rural planning area.

After obtaining a construction work planning permit, subject to certain exceptions, a construction enterprise must apply for a construction work commencement permit from the construction authority under the local people's government at the county level or above pursuant to the Administrative Provisions on Construction Permit of Construction Projects (《建築工程施工許可管理辦法》) promulgated by the Ministry of Housing and Urban-Rural Development on June 25, 2014, implemented on October 25, 2014, and amended on September 28, 2018 and March 30, 2021.

Pursuant to the Administrative Measures for Reporting Details Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the Ministry of Construction on April 4, 2000 and amended on October 19, 2009, and the Provisions on Acceptance Examination upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated and implemented by the Ministry of Housing and Urban-Rural Development on December 2, 2013, upon the completion of a construction project, the construction enterprise must submit an application to the competent government department at or above county level where the project is located for examination upon completion of building and for filing purpose, and to obtain the filing form for acceptance and examination upon completion of construction project.

REGULATIONS ON ENVIRONMENTAL PROTECTION AND WORK SAFETY

Regulations on Environmental Protection

Pursuant to the PRC Environmental Protection Law (《中華人民共和國環境保護法》) promulgated by the Standing Committee of the NPC on December 26, 1989, amended on April 24, 2014, and effective on January 1, 2015, any entity which discharges or will discharge pollutants during the course of operations or other activities must implement effective environmental protection safeguards and procedures to control and properly treat waste gas, waste water, waste residue, dust, malodorous gases, radioactive substances, noise, vibrations, electromagnetic radiation, and other hazards produced during such activities.

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Environmental protection authorities impose various administrative penalties on persons or enterprises in violation of the Environmental Protection Law. Such penalties include warnings, fines, orders to rectify within a prescribed period, orders to cease construction, orders to restrict or suspend production, orders to make recovery, orders to disclose relevant information or make an announcement, imposition of administrative action against relevant responsible persons, and orders to shut down enterprises. Any person or entity that pollutes the environment resulting in damage could also be held liable under the PRC Civil Code (《中華人民共和國民法典》). In addition, environmental organizations may also bring lawsuits against any entity that discharges pollutants detrimental to the public welfare.

Regulations on Work Safety

Under relevant construction safety laws and regulations, including the PRC Work Safety Law (《中華人民共和國安全生產法》), which was promulgated by the Standing Committee of the NPC on June 29, 2002, amended on August 27, 2009 and August 31, 2014, and effective on December 1, 2014, production and operating business entities must establish objectives and measures for work safety and improve the working environment and conditions for workers in a planned and systematic way. A work safety protection scheme must also be set up to implement the work safety job responsibility system. In addition, production and operating business entities must arrange work safety training and provide their employees with protective equipment that meets the national or industrial standards. Automobile and components manufacturers are subject to such environment protection and work safety requirements.

REGULATIONS ON FIRE CONTROL

Pursuant to the PRC Fire Safety Law (《中華人民共和國消防法》), which was promulgated by the Standing Committee of the NPC on April 29, 1998, amended on October 28, 2008 and April 23, 2019, and effective on April 23, 2019, and the Interim Provisions on Administration of Fire Control Design Review and Acceptance of Construction Project (《建設工程消防設計審查驗收管理暫行規定》) promulgated by the Ministry of Housing and Urban-Rural Development on April 1, 2020, which became effective on June 1, 2020, the construction entity of a large-scale crowded venue (including the construction of a manufacturing plant whose size is over 2,500 square meters) and other special construction projects must apply for fire prevention design review with fire control authorities, and complete fire assessment inspection and acceptance procedures after the construction project is completed. The construction entity of other construction projects must complete the filing for fire prevention design and the fire safety completion inspection and acceptance procedures within five business days after passing the construction completion inspection and acceptance. If the construction entity fails to pass the fire safety inspection before such venue is put into use or fails to conform to the fire safety requirements after such inspection, it will be subject to (i) orders to suspend the construction of projects, use of such projects, or operation of relevant business, and (ii) a fine between RMB30,000 and RMB300,000.

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REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

Patent Law

According to the PRC Patent Law (《中華人民共和國專利法》) which was promulgated by the Standing Committee of the National People's Congress on March 12, 1984 and amended in 1992, 2000, 2008, and 2020 the State Intellectual Property Office is responsible for administering patent law in China. The patent administration departments of the provincial, autonomous region, or municipal governments are responsible for administering patent law within their respective jurisdictions. The PRC patent system adopts a first-to-file principle, which means that when more than one person files different patent applications for the same invention, only the person who files the application first is entitled to obtain a patent of the invention. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness, and practicability. A patent is valid for twenty years in the case of an invention and ten years in the case of utility models and designs.

Regulations on Copyright

The PRC Copyright Law (《中華人民共和國著作權法》), which became effective on June 1, 1991 and was amended in 2001, 2010 and 2020 provides that Chinese citizens, legal persons, or other organizations own copyright in their copyrightable works, whether published or not, which include, among others, works of literature, art, natural science, social science, engineering technology, and computer software. Copyright owners enjoy certain legal rights, including right of publication, right of authorship, and right of reproduction. The Copyright Law as revised in 2010 extends copyright protection to Internet activities, products disseminated over the Internet, and software products. In addition, the PRC Copyright Law provides for a voluntary registration system administered by the China Copyright Protection Center. Pursuant to the PRC Copyright Law, an infringer of copyrights is subject to various civil liabilities, which include ceasing infringement activities, apologizing to the copyright owners, and compensating the loss of the copyright owners. Infringers of copyright may also be subject to fines and/or administrative or criminal liabilities in severe situations.

Pursuant to the Computer Software Copyright Protection Regulations (《計算機軟件保護條例》) promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, the software copyright owner may go through the registration formalities with a software registration authority recognized by the State Council's copyright administrative department. The software copyright owner may authorize others to exercise that copyright and is entitled to receive remuneration.

Trademark Law

Trademarks are protected under the PRC Trademark Law (《中華人民共和國商標法》), which was adopted on August 23, 1982 and subsequently amended in 1993, 2001, 2013, and 2019, respectively, and the Implementation Regulations of the PRC Trademark Law (《中華人民共和國商標法實施條例》) adopted by the State Council in 2002 and most recently amended

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on April 29, 2014. The Trademark Office under the SAMR (formally known as the SAIC) handles trademark registrations. The Trademark Office grants a ten-year term to registered trademarks and the term may be renewed for another ten-year period upon request by the trademark owner. A trademark registrant may license its registered trademarks to another party by entering into trademark license agreements, which must be filed with the Trademark Office for the record. As with patents, the Trademark Law has adopted a first-to-file principle with respect to trademark registration. If a trademark applied for is identical or similar to another trademark which has already been registered or subject to a preliminary examination and approval for use on the same or similar kinds of products or services, such a trademark application may be rejected. Any person applying for the registration of a trademark may not injure existing trademark rights first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

Regulations on Domain Names

The MIIT promulgated the Measures on Administration of Internet Domain Names (《互聯網域名管理辦法》) on August 24, 2017, which became effective on November 1, 2017 and replaced the Administrative Measures on China Internet Domain Names (《中國互聯網絡域名管理辦法》) promulgated by the MIIT on November 5, 2004. Pursuant to these measures, the MIIT is in charge of the administration of PRC internet domain names. The domain name registration follows a first-to-file principle. Applicants for registration of domain names must provide the true, accurate, and complete information of their identities to domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

REGULATIONS ON FOREIGN EXCHANGE

General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated on January 29, 1996 and most recently amended on August 5, 2008 and various regulations issued by SAFE, and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for capital account items, such as direct equity investments, loans, and repatriation of investment, requires the prior approval from SAFE or its local office.

Payments for transactions that take place in China must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. FIEs may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by SAFE or its local branch. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange

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pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to the Circular of SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》), which was promulgated on November 19, 2012, became effective on December 17, 2012, and was further amended on May 4, 2015, October 10, 2018, and December 30, 2019, approval of SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. This circular also simplifies foreign exchange-related registration required for foreign investors to acquire equity interests of PRC companies and further improve the administration on foreign exchange settlement for FIEs.

The Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), or SAFE Circular 13, which became effective on June 1, 2015 and was amended on December 30, 2019, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to SAFE Circular 13, investors should register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming the Management Approach Regarding the Settlement of Foreign Capital of Foreign-Invested Enterprise (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), which was promulgated on March 30, 2015, became effective on June 1, 2015, and was amended on December 30, 2019, provides that an FIE may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account). Pursuant to this circular, for the time being, FIEs are allowed to settle 100% of their foreign exchange capital on a discretionary basis; an FIE should truthfully use its capital for its own operational purposes within the scope of its business; where an ordinary FIE makes domestic equity investment with the amount of foreign exchanges settled, the FIE must first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered.

The Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), which was promulgated and became effective on June 9, 2016, provides that enterprises registered in China may also convert their foreign debts from foreign currency into

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Renminbi on a self-discretionary basis. This circular also provides an integrated standard for conversion of foreign exchange under capital account items (including, but not limited to, foreign currency capital and foreign debts) on a self-discretionary basis, which applies to all enterprises registered in China.

On January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including: (i) banks should check board resolutions regarding profit distribution, the original version of tax filing records, and audited financial statements pursuant to the principle of genuine transactions; and (ii) domestic entities should hold income to account for previous years' losses before remitting the profits. Moreover, pursuant to this circular, domestic entities should make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts, and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which, among other things, allows all FIEs to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. However, since this circular is relatively new, it is unclear how SAFE and competent banks will carry it out in practice.

Pursuant to the Circular of the State Administration of Foreign Exchange on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) promulgated and effective on April 10, 2020 by SAFE, the reform of facilitating the payments of incomes under the capital accounts will be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt, and overseas listing, for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

According to the Administrative Rules on the Company Registration (《中華人民共和國公司登記管理條例》), which were promulgated by the State Council on June 24, 1994, became effective on July 1, 1994, and were amended on February 6, 2016, and other laws and regulations governing FIEs and company registrations, the establishment of an FIE and any capital increase and other major changes in an FIE should be registered with the SAMR or its local counterparts and filed via the enterprise registration system.

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Pursuant to SAFE Circular 13 (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) and other laws and regulations relating to foreign exchange, when setting up a new FIE, the enterprise should register with the bank located at its registered place after obtaining the business license, and if there is any change in capital or other changes relating to the basic information of the FIE, including, without limitation, any increase in its registered capital or total investment, the FIE must register such changes with the bank located at its registered place after obtaining approval from or completing the filing with relevant authorities. Pursuant to the relevant foreign exchange laws and regulations, such foreign exchange registration with the banks will typically take less than four weeks upon the acceptance of the registration application.

Based on the foregoing, if we intend to provide funding to our wholly foreign-owned subsidiaries through capital injection at or after their establishment, we must register the establishment of and any follow-on capital increase in our wholly foreign-owned subsidiaries with the SAMR or its local counterparts, file such via the enterprise registration system, and register such with the local banks for the foreign exchange related matters.

Loans by the Foreign Companies to Their PRC Subsidiaries

A loan made by foreign investors as shareholders in an FIE is considered foreign debt in China and is regulated by various laws and regulations, including the PRC Regulation on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), the Interim Provisions on the Management of Foreign Debts (《外債管理暫行辦法》), the Statistical Monitoring of Foreign Debt Tentative Provisions (《外債統計監測暫行規定》), the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of Foreign Debt (《外債統計監測實施細則》), and the Administrative Measures for Registration of Foreign Debt (《外債登記管理辦法》). Under these rules and regulations, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches within fifteen business days after the entering of the foreign debt contract. Pursuant to these rules and regulations, the balance of the foreign debts of an FIE cannot exceed the difference between the total investment and the registered capital of the FIE.

On January 12, 2017, the PBOC promulgated the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》), or PBOC Notice No. 9. Pursuant to PBOC Notice No. 9, within a transition period of one year from January 12, 2017, FIEs may adopt the currently valid foreign debt management mechanism, or the mechanism as provided in PBOC Notice No. 9 at their own discretions. PBOC Notice No. 9 provides that enterprises may conduct independent cross-border financing in Renminbi or foreign currencies as required. Pursuant to PBOC Notice No. 9, the outstanding cross-border financing of an enterprise (the outstanding balance drawn, here and below) will be calculated using a risk-weighted approach and cannot exceed certain specified upper limits. PBOC Notice No. 9 further provides that the upper limit of risk-weighted outstanding cross-border financing

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for enterprises is 200% of its net assets, or the Net Asset Limits. Enterprises must file with SAFE in its capital item information system after entering into the relevant cross-border financing contracts and prior to three business days before drawing any money from the foreign debts.

Based on the foregoing, if we provide funding to our wholly foreign-owned subsidiaries through shareholder loans, the balance of such loans cannot exceed the difference between the total investment and the registered capital of the subsidiaries and we will need to register such loans with SAFE or its local branches in the event that the currently valid foreign debt management mechanism applies, or the balance of such loans will be subject to the risk-weighted approach and the Net Asset Limits and we will need to file the loans with SAFE in its information system in the event that the mechanism as provided in PBOC Notice No. 9 applies. Pursuant to PBOC Notice No. 9, after a transition period of one year from January 11, 2017, the PBOC and SAFE would determine the cross-border financing administration mechanism for the FIEs after evaluating the overall implementation of PBOC Notice No. 9. As of the date hereof, neither the PBOC nor SAFE has promulgated and made public any further rules, regulations, notices, or circulars in this regard. It is uncertain which mechanism will be adopted by the PBOC and SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries.

Offshore Investment

Under the Circular of SAFE on Issues Concerning the Foreign Exchange Administration over the Overseas Investment and Financing and Round-Trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, effective on July 4, 2014, PRC residents are required to register with the local SAFE branch prior to the establishment or control of an offshore special purpose vehicle, which is defined as an offshore enterprise directly established or indirectly controlled by PRC residents for investment and financing purposes, with the enterprise assets or interests PRC residents hold in China or overseas. The term “control” means to obtain the operation rights, right to proceeds, or decision-making power of a special purpose vehicle through acquisition, trust, holding shares on behalf of others, voting rights, repurchase, convertible bonds, or other means. An amendment to registration or subsequent filing with the local SAFE branch by such PRC residents is also required if there is any change in the basic information of the offshore company or any material change with respect to the capital of the offshore company. At the same time, SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-Trip Investment regarding the procedures for SAFE registration (《返程投資外匯管理所涉業務操作指引》) under SAFE Circular 37, which became effective on July 4, 2014 as an attachment of SAFE Circular 37.

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Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in bans on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliates, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

As of the date of this prospectus, our founder, Mr. Li Xiang, and 11 other PRC residents known to us that currently hold direct or indirect ownership interests in our company have completed the initial registrations with SAFE as required by SAFE regulations. Mr. Li Xiang and four other co-founders or directors are planning to update the registrations with respect to the capital of their respective offshore holding vehicles. We cannot assure you that all of our shareholders or beneficial owners that are PRC residents, including the beneficiaries of certain trusts directly or indirectly holding interests in our company, have complied with, and will in the future make, obtain, or update any applicable registrations or approvals required by, SAFE regulations.

REGULATIONS ON DIVIDEND DISTRIBUTION

The principal laws and regulations regulating the distribution of dividends by FIEs in China include the PRC Company Law (《中華人民共和國公司法》), as amended in 2004, 2005, 2013, and 2018, and the 2019 PRC Foreign Investment Law (《中華人民共和國外商投資法》) and its Implementation Rules (《中華人民共和國外商投資法實施條例》). Under the current regulatory regime in China, FIEs in China may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company cannot distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

REGULATIONS ON TAXATION

Enterprise Income Tax

On March 16, 2007, the NPC promulgated the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), which was amended on February 24, 2017 and December 29, 2018. On December 6, 2007, the State Council enacted the Regulations for the Implementation of the Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), which became effective on January 1, 2008 and amended on April 23, 2019. Under the Enterprise Income Tax Law and the relevant implementation regulations, both resident enterprises and non-resident enterprises are subject to tax in China. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but are actually or in effect controlled from within China. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside China, but have

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established institutions or premises in China, or have no such established institutions or premises but have income generated from inside China. Under the Enterprise Income Tax Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in China, or if they have formed permanent establishment or premises in China but there is no actual relationship between the relevant income derived in China and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from inside the PRC.

Value-Added Tax

The PRC Provisional Regulations on Value-Added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on December 13, 1993, which became effective on January 1, 1994 and were subsequently amended from time to time. The Detailed Rules for the Implementation of the PRC Provisional Regulations on Value-Added Tax (2011 Revision) (《中華人民共和國增值稅暫行條例實施細則》(2011年修訂)) was promulgated by the MOF on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011. On November 19, 2017, the State Council promulgated the Decisions on Abolishing the PRC Provisional Regulations on Business Tax and Amending the PRC Provisional Regulations on Value-Added Tax (《國務院關於廢止<中華人民共和國營業稅暫行條例>和修改<中華人民共和國增值稅暫行條例>的決定》). Pursuant to these regulations, rules and decisions, all enterprises and individuals engaged in sale of goods, provision of processing, repair, and replacement services, sales of services, intangible assets, real property, and the importation of goods within the PRC territory are VAT taxpayers. On March 20, 2019, the MOF, the SAT, and the General Administration of Customs jointly issued the Announcement on Deepen the Reform of Value-Added Tax (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》). Pursuant to this announcement, the generally applicable VAT rates are simplified as 13%, 9%, 6%, and 0%, which became effective on April 1, 2019, and the VAT rate applicable to the small-scale taxpayers is 3%.

Dividend Withholding Tax

The Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within China.

Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have met the relevant conditions and requirements under this arrangement and other applicable laws, the 10%

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withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) issued on February 20, 2009, if the relevant PRC tax authorities determine, in their discretions, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Pursuant to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》), which was issued on February 3, 2018 by the SAT and became effective on April 1, 2018, when determining the applicant’s status as the “beneficial owner” regarding tax treatments in connection with dividends, interests, or royalties in the tax treaties, several factors, including, without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counter party country or region to the tax treaties does not levy any tax or grant any tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and such factors will be analyzed according to the actual circumstances of the specific cases. This circular further provides that an applicant who intends to prove his or her status as the “beneficial owner” must submit the relevant documents to the relevant tax bureau pursuant to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》).

Tax on Indirect Transfer

On February 3, 2015, the SAT issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), or SAT Circular 7. Pursuant to SAT Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises, may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a “reasonable commercial purpose” in the transaction arrangement, features to be taken into consideration include, inter alia, whether the main value of the equity interest of the relevant offshore enterprise derives directly or indirectly from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income is mainly derived from China; and whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have a real commercial nature which is evidenced by their actual function and risk exposure. Pursuant to SAT Circular 7, where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. SAT Circular 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired on a public stock exchange. On October 17, 2017, the SAT issued the Circular on Issues of Tax Withholding Regarding Non-PRC Resident

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Enterprise Income Tax (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》), or SAT Circular 37, which was amended by the Announcement of the State Administration of Taxation on Revising Certain Taxation Normative Documents (《國家稅務總局關於修改部分稅收規範性文件的公告》) issued on June 15, 2018 by the SAT. SAT Circular 37 further elaborates the relevant implemental rules regarding the calculation, reporting, and payment obligations of the withholding tax by the non-resident enterprises. Nonetheless, there remain uncertainties as to the interpretation and application of SAT Circular 7. SAT Circular 7 may be determined by the tax authorities to be applicable to our offshore transactions or sale of our shares or those of our offshore subsidiaries where non-resident enterprises, being the transferors, were involved.

REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

Labor Contract Law

The PRC Labor Contract Law (《中華人民共和國勞動合同法》), which became effective on January 1, 2008 and amended on December 28, 2012, primarily aims at regulating rights and obligations of employer and employee relationships, including the establishment, performance, and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts must be executed in writing if labor relationships are to be or have been established between employers and employees. Employers are prohibited from forcing employees to work above certain time limits and employers must pay employees for overtime work in accordance with national regulations. In addition, employee wages must not be lower than local standards on minimum wages and must be paid to employees in a timely manner.

Social Insurance

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999, and the PRC Social Insurance Law (《中華人民共和國社會保險法》) implemented on July 1, 2011 and amended on December 29, 2018, employers are required to provide their employees in China with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, and medical insurance. These payments are made to local administrative authorities. Any employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a prescribed time limit and be subject to a late fee. If the employer still fails to rectify the failure to make the relevant contributions within the prescribed time, it may be subject to a fine ranging from one to three times the amount overdue. On July 20, 2018, the General Office of the State

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Council issued the Plan for Reforming the State and Local Tax Collection and Administration Systems (《國稅地稅徵管體制改革方案》), which stipulated that the SAT will become solely responsible for collecting social insurance premiums.

Housing Fund

In accordance with the Regulations on the Administration of Housing Funds (《住房公積金管理條例》), which was promulgated by the State Council in 1999 and amended in 2002 and 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employers and employees are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of the employee in the preceding year in full and on time.

Employee Stock Incentive Plan

Pursuant to the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), which was issued by SAFE on February 15, 2012, employees, directors, supervisors, and other senior management who participate in any stock incentive plan of a publicly-listed overseas company and who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year, subject to a few exceptions, are required to register with SAFE through a qualified domestic agent, which may be a PRC subsidiary of such overseas listed company, and complete certain other procedures.

In addition, the SAT has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, employees working in China who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are required to file documents related to employee stock options and restricted shares with relevant tax authorities and to withhold individual income taxes of employees who exercise their stock options or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with relevant laws and regulations, the PRC subsidiaries may be subject to sanctions imposed by the tax authorities or other PRC governmental authorities.

M&A RULES AND OVERSEAS LISTING

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the M&A Rules governing the mergers and acquisitions of domestic enterprises by foreign investors (《關於外國投資者並購境內企業的規定》), which became effective on September 8, 2006 and was revised on June 22, 2009. The M&A Rules, among other things, require that if an overseas company established or controlled by PRC companies or PRC citizens intends to acquire equity interests or assets of any other PRC domestic company affiliated with the PRC citizens, such acquisition must be submitted to the MOFCOM for approval. The M&A Rules also require that an offshore special purpose vehicle,

REGULATIONS

or a special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to overseas listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

On July 6, 2021, the State Council and General Office of the CPC Central Committee issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. The opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. See “Risk Factors—Risks Relating to Doing Business in China—The approval of the CSRC or other PRC government authorities may be required in connection with this offering under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.”

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our Group was founded in April 2015 by our Founder, Mr. Li Xiang. In April 2017, the Company was incorporated under the laws of the Cayman Islands under the name “CHJ Technologies Inc.” as our offshore holding company. Our Company later changed its name to “Leading Ideal Inc.” in April 2019 and to “Li Auto Inc.” in July 2020.

Since our inception, we have been leveraging technologies to create value for our users. We commenced research and development of our vehicle models and in-car technologies in April 2015. Our first model, Li ONE, started volume production in November 2019 and as of July 31, 2021, we have delivered over 72,000 Li ONEs.

Our Founder, Mr. Li Xiang, has over 20 years of experience founding and managing internet technology companies in China, including over 13 years of experience focusing on the automobile industry. Please see the section headed “Directors and Senior Management” for further details of the work experiences of Mr. Li Xiang.

BUSINESS MILESTONES

The following is a summary of our key business development milestones:

| Timeline | Event |
|-----------------|---|
| April 2015 | We commenced business operation |
| October 2018 | Product launch of Li ONE |
| August 2016 | Foundation Stone Laying Ceremony of our Changzhou Plant |
| November 2019 | We started the volume production of Li ONE |
| December 2019 | We delivered our first Li ONE |
| July 2020 | We listed our ADSs on the Nasdaq under the symbol “LI” |
| May 2021 | We released our 2021 Li ONE |
| June 2021 | Single-month orders of Li ONEs exceeded 10,000 |
| July 2021 | Cumulative deliveries of Li ONEs exceeded 72,000 |

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities, date of establishment and date of commencement of business of each member of our Group that made a material contribution to our results of operation during the Track Record Period are shown below:

| Name | Principal business activities | Date of establishment and commencement of business |
|---------------------|---|---|
| Beijing CHJ | Research and development | April 10, 2015 |
| Beijing Leading | Sales and after sales management | August 6, 2019 |
| Chongqing Lixiang | Manufacturing of automobile | October 11, 2019 |
| Wheels Technology | Technology development and corporate management | December 19, 2017 |
| Xindian Interactive | Sales and after sales management | May 08, 2017 |

LISTING ON THE NASDAQ

On July 30, 2020, we listed our ADSs on the Nasdaq under the symbol “LI.” Our initial public offering on the Nasdaq was completed on August 3, 2020. Pursuant to the initial public offering, our Company sold 95,000,000 ADSs representing 190,000,000 Class A Ordinary Shares at an offering price of US\$11.50 per ADS; additionally, the underwriters exercised in full their option to purchase an additional 14,250,000 ADSs representing 28,500,000 Class A Ordinary Shares.

On August 3, 2020, concurrently with the completion of our initial public offering, we issued and sold (i) 52,173,913 Class A Ordinary Shares to Inspired Elite Investments Limited for a consideration of US\$300.0 million, (ii) 5,217,391 Class A Ordinary Shares to Bytedance (HK) Limited for a consideration of US\$30.0 million, (iii) 5,217,391 Class A Ordinary Shares to Zijin Global Inc. for a consideration of US\$30.0 million, and (iv) 3,478,260 Class A Ordinary Shares to Kevin Sunny Holding Limited for a consideration of US\$20.0 million. We received from our initial public offering gross proceeds of approximately US\$1.64 billion and net proceeds, including the underwriters’ option, and the concurrent placing after deducting the underwriting discounts and offering expenses, of approximately US\$1.58 billion.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As of March 31, 2021, we have utilized approximately 19% of the net proceeds from our initial public offering on the Nasdaq for capital expenditures, research and development of new products, and general corporate purposes and working capital. We still intend to use the remainder of the proceeds for purposes as disclosed in our registration statement on Form F-1 issued in connection with our initial public offering on the Nasdaq.

On December 3, 2020, our Company completed a follow-on public offering at a price of US\$29.00 per ADS. In this offering, our Company sold 47,000,000 ADSs representing 94,000,000 Class A Ordinary Shares. Additionally, the underwriters exercised in full their option to purchase an additional 7,050,000 ADSs representing 14,100,000 Class A Ordinary Shares. We received from this offering gross proceeds of approximately US\$1.57 billion and net proceeds, including the underwriters' option, after deducting the underwriting discounts and offering expenses, of approximately US\$1.53 billion. As of March 31, 2021, we have not yet utilized our net proceeds from the follow-on offering. We still intend to use the net proceeds for purposes as disclosed in our registration statement on Form F-1 issued in connection with the follow-on offering.

We invest any unutilized net proceeds in short-term, interest-bearing bank wealth management products and term deposits.

COMPLIANCE WITH THE RULES OF NASDAQ

Our Directors confirm that since the date of our listing on the Nasdaq and up to the Latest Practicable Date, we had no instances of non-compliance with the rules of the Nasdaq in any material respects and to the best knowledge of our directors having made all reasonable enquiries, there is no matter that should be brought to investors' attention in relation to our compliance record on the Nasdaq.

REASONS FOR THE LISTING

Our Board is of the view that the Listing and the Global Offering will present us with an opportunity to further expand our investor base and broaden our access to capital markets and provide us with the necessary funding for us to further develop and commercialize our NEV products and to further expand our sales and marketing network as disclosed in the section headed "Business—Our Strategies" in this document. It is expected that the net proceeds from the Global Offering, after deducting the underwriting commissions and other estimated offering expenses payable by us, will amount to approximately HK\$14.7 billion (based on the indicative offer price of HK\$150.00 per Offer Share, and assuming the Over-allotment Option is not exercised). Please see the section headed "Future Plans and Use of Proceeds" in this document for details of our proposed uses of the net proceeds from the Global Offering.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated in the Cayman Islands on April 28, 2017 to serve as the holding company of our Group. Upon incorporation, our Company had an authorized share capital of US\$50,000.00 divided into 5,000,000 ordinary shares with a par value of US\$0.01 each.

The major shareholding changes of our Company during the Track Record Period were as set out below.

Ordinary Shares

On April 4, 2019, our Company effected a 100-for-1 share split whereby each of its then issued and outstanding ordinary shares was divided into 100 ordinary shares, par value of US\$0.0001 each.

On June 14, 2019, our Company adopted a WVR structure. It repurchased and canceled all ordinary shares then outstanding, and issued 60,000,000 Class A Ordinary Shares to C&J International Limited, 15,000,000 Class A Ordinary Shares to Da Gate Limited and 240,000,000 Class B Ordinary Shares to Amp Lee Ltd. at par value of US\$0.0001 each.

In August 2020, we issued a total of 284,586,955 Class A Ordinary Shares pursuant to our initial public offering on the Nasdaq and the concurrent private placement. In December 2020, we issued and sold a total of 108,100,000 Class A Ordinary Shares pursuant to a follow-on offering on the Nasdaq. Further details of our initial public offering and the follow-on offering are set out in the section headed “—Listing on the Nasdaq” in this section.

Preferred Shares

Historically, Beijing CHJ issued certain preferred equity interests to various investors. Between July 2019 and January 2020, our Company underwent a reorganization of its shareholding structure and issued preferred shares in the share capital of our Company to equity interest holders of Beijing CHJ in exchange for the return of their respective preferred equity interests in Beijing CHJ. The said reorganization resulted in the issuance of an aggregate of (i) 50,000,000 Series Pre-A preferred shares, (ii) 129,409,092 Series A-1 preferred shares, (iii) 126,771,562 Series A-2 preferred shares, (iv) 65,498,640 Series A-3 preferred shares, (v) 115,209,526 Series B-1 preferred shares, (vi) 55,804,773 Series B-2 preferred shares, (vii) 119,950,686 Series B-3 preferred shares, and (viii) 267,198,535 Series C preferred shares; all of the preferred shares had a par value of US\$0.0001 each.

On July 1, 2020, we issued (i) 212,816,737 Series D preferred shares to Inspired Elite Investments Limited for a consideration of US\$500,000,000, (ii) 7,576,722 Series D preferred shares to Kevin Sunny Holding Limited for a consideration of US\$20,000,000, and (iii) 11,365,082 Series D preferred shares to Amp Lee Ltd. for a consideration of US\$30,000,000; all of the preferred shares had a par value of US\$0.0001 each.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Immediately prior to the completion of our initial public offering on the Nasdaq, all preferred and ordinary shares beneficially owned by Mr. Li at the time were re-designated into 355,812,080 Class B Ordinary Shares on a one-for-one basis; and immediately upon the completion of our initial public offering, all the issued and outstanding preferred shares in our Company (other than those beneficially owned by Mr. Li) were converted into Class A Ordinary Shares on a one-for-one basis.

OUR INVESTORS PRIOR TO THE NASDAQ LISTING

Since our inception, we have received investments from various professional equity investment funds and prestigious internet technology companies. The aggregate net proceeds from such investments amounted to an equivalent of RMB14.0 billion. As of the Latest Practicable Date, we have utilised substantially all of the net proceeds from these investments for capital expenditures, research and development and working capital purposes. The investments led to the issuance of certain preferred shares in the share capital of our Company which were converted into Class A Ordinary Shares immediately prior to the completion of our initial public offering on the Nasdaq. Further details are as set out in the sub-section headed “—Major shareholding changes of our Company—Preferred shares” in this section.

Among such investors, Meituan (through its wholly-owned subsidiary, Inspired Elite Investments Limited) subscribed for 212,816,737 Series D preferred shares in our Company in July 2020 for a consideration of US\$500 million and further subscribed for 52,173,913 Class A Ordinary Shares for a consideration of US\$300 million in the private placement conducted concurrently with the completion of our initial public offering on the Nasdaq. As of the Latest Practicable Date, Meituan held 258,171,601 Class A Ordinary Shares and is expected to be a substantial shareholder of our Company following the Listing. Meituan is a sophisticated investor of our Company and in accordance with Guidance Letter HKEX-GL93-18, has undertaken to the Company that it will retain an aggregate 50% of its investment at the time of the Listing for a period of six months following the Listing.

Meituan is a company incorporated in the Cayman Islands and its Class B ordinary shares were listed on the Stock Exchange (stock code: 3690) in September 2018. Meituan is a leading e-commerce platform for services in China. As of the Latest Practicable Date, it had a market capitalization in excess of HK\$1.6 trillion. Meituan is an experienced investor and has invested in a spectrum of companies, including robotics, SaaS, autonomous driving, intelligent hardware and other industries.

INVESTOR RIGHTS AGREEMENT

On July 9, 2020, we entered into an investor rights agreement with Inspired Elite Investments Limited, a wholly-owned subsidiary of Meituan and at the time a shareholder of our Series D preferred shares, which took effect upon the completion of our initial public offering on the Nasdaq and was subsequently amended and restated with effect from the Listing

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Date (the “**Investment Rights Agreement**”). The Investor Rights Agreement (as amended) provides for certain special rights for Inspired Elite Investments Limited and any other subsidiary of Meituan that is a Shareholder at the relevant time (each a “**Meituan Shareholder**”), which are:

- (a) the right to appoint, remove, and replace one director. This right will terminate immediately upon the Listing;
- (b) the consent right to: (i) the creation or issuance of any shares that carry more than one vote per share, or preferred shares having rights that are more favorable to the shares held by Inspired Elite Investments Limited and any other subsidiary of Meituan, or any action that amends the voting power attached to any Class B Ordinary Shares, and (ii) amendment of any existing equity incentive plan by increasing the shares reserved for issuance or extending the expiration date, or adoption of any new equity incentive plan. This right will terminate immediately upon the Listing; and
- (c) right of first refusal on change of control the occurrence of any of the following transactions: (i) an amalgamation, merger, consolidation, scheme of arrangement or similar transaction of our Company with or into any other person in which the shareholders of our Company immediately prior to such a transaction or transactions do not hold more than 50% of our Company’s voting power in the aggregate immediately after such a transaction or transactions and the surviving entity is no longer controlled by such shareholders and their respective affiliates immediately after such a transaction or transactions; or (ii) sale, transfer or other disposition of all or substantially all of the assets of our Company (including without limitation in a liquidation, dissolution or similar proceeding) (together, a “**Change of Control Transaction**”).

In the event that a Meituan Shareholder exercises the right of first refusal in accordance with the procedures set out in the Investor Rights Agreement, the Company then is obliged to: (a) together with the Meituan Shareholder, use their respective reasonable best efforts to agree in good faith and enter into definitive documentation so that the Meituan Shareholder will consummate the Change of Control Transaction at a purchase price no less than, and on substantially the same material terms and conditions as, those initially proposed and notified to the Meituan Shareholder; and (b) subject to the terms of the definitive documentation and necessary extensions, consummate the Change of Control Transaction with the Meituan Shareholder as soon as reasonably practicable, and in no event later than two months after the exercise of the right of first refusal. Mr. Li and Amp Lee Ltd. are also obliged to make reasonable best efforts to procure the Company to perform and comply with its obligations following the exercise of the right of first refusal.

Meituan’s exercise of the right of first refusal and the performance of the Company’s obligations following the exercise of the right of first refusal after the Listing will be subject to the Listing Rules and the Takeovers Code and other applicable laws and regulations in effect at the time.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The Investor Rights Agreement will automatically terminate if Inspired Elite Investments Limited and any other subsidiary of Meituan cease to beneficially own, in aggregate, for the first time, at least 50% of the shares beneficially owned by them on the date of the completion of our initial public offering on the Nasdaq.

The special rights were granted to Meituan in connection with its US\$500 million pre-IPO investment in our Company in early July 2020. Meituan invested a further US\$300 million as part of our Company's initial public offering on the Nasdaq in July 2020. Currently Mr. Wang Xing, the founder and controlling shareholder of Meituan, is the representative director of Meituan on our Board.

Meituan is a leading e-commerce platform for services in China and a well-known investor in China, with investments across a spectrum of industries. Having Meituan as our major investor would allow us to continue to benefit from the business guidance and strategic advantages Meituan can offer as a major investor; Meituan's investment demonstrated its confidence in and endorsement of the performance, management and prospects of our Company and in turn enhanced our credibility and attractiveness to future investors. The Directors therefore considered the Investor Rights Agreement is in the best interests of the Company and its Shareholders as a whole at the time it was entered into and remain of that view.

In approving the Investors Rights Agreement, the Directors were required to exercise under the laws of the Cayman Islands, and did exercise, fiduciary duties in granting the above rights taking into account the benefits of receiving the capital investment from Meituan, and acted in the best interests of our Company and our shareholders as a whole. The Company further confirms that the special rights granted to Meituan do not conflict with any applicable US laws or regulations, including any rules of the Nasdaq.

CONVERTIBLE NOTES

In April 2021, we issued the 2028 Notes, namely, the convertible senior notes in an aggregate principal amount of US\$862.5 million due 2028 with an interest rate of 0.25% per annum. The 2028 Notes may be converted, at an initial conversion rate of 35.2818 ADSs per US\$1,000 principal amount (which represents an initial conversion price of US\$28.34 per ADS) at each holder's option at any time on or after November 1, 2027, until the close of business on the second scheduled trading day immediately preceding the maturity date of May 1, 2028. The initial conversion price of US\$28.34 per ADS, or US\$14.17 per Class A Ordinary Share (the latter represents the effective cost per Class A Ordinary Share), represents a discount of approximately 26.56% to the maximum Public Offer Price of HK\$150.00 per Class A Ordinary Share. The initial conversion rate may be adjusted in certain circumstances, including but not limited to when our Company effects a share split or share combination. As of the Latest Practicable Date, no adjustment had been made to the initial conversion rate. Holders of the 2028 Notes have the right to require us to repurchase their notes on May 1, 2024 and May 1, 2026 or upon the occurrence of a fundamental change (as defined in the indenture), in each case, at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest. If such fundamental change occurs, such event would allow early repurchase of the 2028 Notes by the noteholders. Please see the risk factor relating to the repurchase rights provision in the section headed "Risk Factors—We may not

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

have the ability to raise the funds necessary to settle conversion of the notes in cash, to repurchase the notes upon a fundamental change, to repurchase notes on May 1, 2024 and May 1, 2026, and our future debt may contain limitations on our ability to pay cash upon conversion or to repurchase the notes.”

The 2028 Notes were placed to a wide range of institutional investors (qualified institutional buyers) in a Rule 144A offering. The 2028 Notes are dematerialized (intermediated) securities cleared via Deutsche Bank Trust Company Americas in a regular way and trade in the 144A market via brokers. No material special rights were granted to the holders of the 2028 Notes that will survive following the Listing. None of the holders of the 2028 Notes is subject to any lock-up requirement. To the best knowledge of the Company, none of the holders of the 2028 Notes are connected persons of the Company. As such the Class A Ordinary Shares underlying all the ADSs to be issued upon the conversion of the 2028 Notes will be counted towards the public float.

Assuming full conversion of the 2028 Notes at the initial conversion rate of 35.2818 ADSs per US\$1,000 principal amount, the 2028 Notes will be convertible into 30,430,552 ADSs, representing 60,861,104 Class A Ordinary Shares. For illustrative purposes only, 60,861,104 Class A Ordinary Shares represent approximately 2.88% of the total issued share capital (as if enlarged by the issue of such shares) of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans).

We received gross proceeds of US\$862.5 million and net proceeds of approximately US\$844.9 million from the issue of the 2028 Notes. The gross proceeds were paid to us in full on April 12, 2021. As of the Latest Practicable Date, we have not yet utilized our net proceeds from the issue of the 2028 Notes. Our Company plans to use the net proceeds from the issue of the 2028 Notes for (i) research and development of new vehicle models, including HPC BEV models, (ii) research and development of leading technologies, and (iii) working capital and other general corporate purposes.

The issue of the 2028 Notes was not linked to the Listing and the conversion price of the 2028 Notes is not linked to the Offer Price or the market capitalization of our Company. Following the Listing, the operation of the 2028 Notes will be subject to the applicable requirements of the Listing Rules.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

We have not conducted any acquisitions, disposals or mergers since our inception that we consider to be material to us.

REORGANIZATION

In preparation for the Listing, we underwent reorganization of our corporate structure (the “**Reorganization**”), which consisted of the following material steps:

1. Reorganization of our onshore subsidiaries and consolidated affiliated entities

With a view to complying with the requirements under the Listing Decision LD43-3 to the extent practicable, we underwent reorganization of the holding structure of our onshore subsidiaries and consolidated affiliated entities. The Reorganization mainly involved changing certain consolidated affiliated entities controlled through contractual arrangements to wholly-owned or partly-owned subsidiaries of our Company, to the extent permitted under the relevant PRC laws and regulations.

Our PRC Legal Advisor confirmed that: (i) all necessary regulatory approvals, permits and licenses required under PRC Laws in relation to the Reorganization have been obtained; and (ii) all share transfers and changes in registered capital as part of the Reorganization has complied with all applicable PRC Laws in all material respects.

2. Entry into the Contractual Arrangements to replace the old contractual arrangements

On April 21, 2021, the Contractual Arrangements were entered into to replace the old contractual arrangements in place before the Reorganization. See section headed “Contractual Arrangements” for further details.

As of the Latest Practicable Date, the Reorganization had been completed.

Below is a simplified diagram illustrating our corporate structure immediately before the Reorganization took place. A diagram illustrating our corporate structure after completion of the Reorganization and immediately prior to the Global Offering is set out under the section headed “—Our structure immediately prior to the Global Offering” in this section.

Our structure as of December 31, 2020, prior to the Reorganization



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PRC REGULATORY REQUIREMENTS

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) jointly issued by MOFCOM, the SASAC, the STA, the CSRC, the SAIC (currently known as the SAMR) and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009 with immediate effect, require that a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals through acquisitions of shares of or equity interests in PRC domestic companies, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

Our PRC Legal Advisor is of the opinion that prior CSRC approval for this offering is not required because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours under this document are subject to the M&A Rules; (ii) our wholly-owned PRC subsidiaries were not established through mergers or acquisitions of domestic companies owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company; and (iii) that no provision in the M&A Rules clearly classified contractual arrangements as a type of transaction subject to the M&A Rules. However, our PRC Legal Advisor further advises that there is uncertainty as to how the M&A Rules will be interpreted or implemented.

SAFE REGISTRATION IN THE PRC

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment, Financing and Round Trip Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”), promulgated by SAFE on July 4, 2014 with immediate effect which replaced the Circular of the SAFE on Foreign Exchange Administration of Equity Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 75**”), (a) a PRC resident must register with the local SAFE counterpart before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE counterpart for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Notice on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Notice No. 13**”), promulgated by SAFE on February 13, 2015 and became effective on June 1, 2015, the power of foreign exchange registration was delegated from the local SAFE counterpart to qualified local banks where the domestic entity was incorporated.

As advised by our PRC Legal Advisor, Mr. Li Xiang, Mr. Shen Yanan and Mr. Li Tie, and eight other individuals, who indirectly hold Shares of our Company and are known to us as being PRC citizens, have completed the registration under the SAFE Circular 37.

Notes:

- (1) Amp Lee Ltd. is a company incorporated in British Virgin Islands and is wholly owned by Cyric Point Enterprises Limited. The entire interest in Cyric Point Enterprises Limited is held by a trust that was established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family.
- (2) Inspired Elite Investments Limited is a company incorporated in British Virgin Islands. Inspired Elite Investments Limited is a wholly owned subsidiary of Meituan, a company incorporated in the Cayman Islands and listed on the Stock Exchange (stock code: 3690). Mr. Wang Xing is a director and the controlling shareholder of Meituan.
- (3) Representing:
 - (a) 131,883,776 Class A Ordinary Shares and 1,379,310 Class A Ordinary Shares represented by 689,655 ADSs held by Zijin Global Inc., a company incorporated in British Virgin Islands. Zijin Global Inc. is wholly owned by Songtao Limited. The entire interest in Songtao Limited is held by a trust that was established by Mr. Wang Xing (as the settlor), our non-executive Director, for the benefit of Mr. Wang Xing and his family, with the trustee being TMF (Cayman) Ltd.
 - (b) 86,978,960 Class A Ordinary Shares held by Rainbow Six Limited. Rainbow Six Limited is a company incorporated in British Virgin Islands and is wholly owned by Star Features Developments Limited. The entire interest in Star Features Developments Limited is held by a trust that was established by Mr. Fan Zheng (as the settlor), our non-executive Director, for the benefit of Mr. Fan Zheng and his family.
 - (c) 15,000,000 Class A Ordinary Shares held by Da Gate Limited, which is a company incorporated in British Virgin Islands and is wholly-owned by Brave City Group Limited. The entire interest in Brave City Group Limited is held by a trust that was established by Mr. Shen Yanan (as the settlor), our executive Director, for the benefit of Mr. Shen Yanan and his family.
 - (d) 14,373,299 Class A Ordinary Shares held by Sea Wave Overseas Limited, which is a company incorporated in British Virgin Islands and is wholly owned by Day Express Group Limited. The entire interest in Day Express Group Limited is held by a trust that was established by Mr. Li Tie (as the settlor), our executive Director, for the benefit of Mr. Li Tie and his family.
- (4) Namely:
 - (a) Shanghai Lixiang Automobile Technology Co., Ltd. (上海理想汽車科技有限公司);
 - (b) Beijing Lixiang Automobile Co., Ltd. (北京理想汽車有限公司);
 - (c) Chehejia (Xiamen) Investment Co., Ltd. (車和家(廈門)投資有限公司);
 - (d) Lixiang Zhizao Automobile Services (Xiamen) Co., Ltd. (理想智造汽車服務(廈門)有限公司), being a wholly-owned subsidiary of Chehejia (Xiamen) Investment Co., Ltd.; and
 - (e) Shanghai Yizhinan Technology Co., Ltd. (上海易之南科技有限公司).
- (5) Namely:
 - (a) Zhejiang Lixiang Automobile Co., Ltd. (浙江理想汽車有限公司);
 - (b) Chehejia Financial Technology (Jiangsu) Co., Ltd. (車和家金融科技(江蘇)有限公司);
 - (c) Beijing Xindian Intelligent Technology Co., Ltd. (北京心電智能科技有限公司); and
 - (d) Chongqing Xinfan, a wholly-owned subsidiary of Beijing Xindian Intelligent Technology Co., Ltd..
- (6) Including 32,957,578 Class A Ordinary Shares (as at the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans. As of the Latest Practicable Date, such Shares are not held by the Depositary on behalf of any person, as the relevant awards have not yet been exercised or vested. The Depositary is not entitled to exercise the voting rights attached to such Class A Ordinary Shares pursuant to the deposit agreement; only the holder of the ADSs representing such Class A Ordinary Shares, once issued pursuant to the exercise or vesting of the relevant awards, may exercise the relevant voting rights by giving the necessary instructions to the Depositary.
- (7) Including: ByteDance (HK) Limited, an intermediary company of the investor, ByteDance, holding 18,687,944 Class A Ordinary Shares representing 0.96% of the issued Shares of the Company as at the Latest Practicable Date; Chemel (Shanghai) Enterprise Management Consulting, a limited partnership under the equity investment fund, Long-Z (龍珠), holding 11,225,461 Class A Ordinary Shares, representing 0.58% of the issued Shares of the Company as at the Latest Practicable Date; Future Capital Discovery Fund I, L.P. and Future Capital Discovery Fund II, L.P., limited partnerships under the investment fund, Future Capital Discovery Fund (明勢資本), holding 4,889,935 Class A Ordinary Shares and 11,653,510 Class A Ordinary Shares, representing 0.25% and 0.60% of the issued Shares of the Company as at the Latest Practicable Date respectively; GZ Limited, an intermediary company of the investor, Guazi (瓜子二車), holding 11,377,395 Class A Ordinary Shares, representing 0.58% of the issued Shares of the Company as at the Latest Practicable Date; Striver Holdings Ltd., an intermediary company of an individual investor, holding 36,464,907 Class A Ordinary Shares, representing 1.87% of the issued Shares of the Company as at the Latest Practicable Date; and Xiamen Xinweidachuang Investment Partnership, a limited partnership under the equity investment fund, Matrix Partners China (經緯中國), holding 24,000,000 Class A Ordinary Shares, representing 1.23% of the issued Shares of the Company as at the Latest Practicable Date. The remaining other public Shareholders each holds less than 0.5% of the issued Shares of the Company as at the Latest Practicable Date. The foregoing Shareholders are our investors that invested in us before our initial public offering on the Nasdaq. For clarity, the foregoing Shareholders hold Class A Ordinary Shares and not our ADSs. These Class A Ordinary Shares are included in our application to the Listing Committee of the Stock Exchange for the listing of and the permission to deal in our Class A Ordinary Shares on the Stock Exchange, and therefore may be traded on the Stock Exchange after the Listing, subject to the relevant Shareholders meeting any requirements or obligations, under law or otherwise, that are applicable to them for them to trade the said shares.

The following diagram illustrates the simplified corporate and shareholding structure of our Group immediately following the completion the Global Offering (assuming there is no change in the shareholding of the public Shareholders from the Latest Practicable Date to immediately following the Global Offering and assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, and assuming the Reorganization is completed):



OVERVIEW

We are an NEV automaker in China. We design, develop, manufacture, and sell premium smart electric vehicles. Through our product and technology, we provide families with safe and convenient products and services. We are a pioneer in successfully commercializing EREVs in China. Our first and currently the only commercialized model, Li ONE, is a six-seat, large premium electric SUV equipped with a range extension system and advanced smart vehicle solutions. We started volume production of Li ONE in November 2019 and released the 2021 Li ONE on May 25, 2021. As of July 31, 2021, we delivered over 72,000 Li ONEs. In 2020, Li ONE ranked as the best-selling new energy SUV model in China with a 9.7% market share and ranked in the top six in China's NEV market in terms of sales volume with a 2.8% market share, and we ranked as the eleventh among all the NEV brands in China in terms of sales volume, according to the CIC Report. The market size of China's passenger vehicle market and NEV market in 2020 was 20.8 million and 1.2 million, respectively, according to the CIC Report. In 2020, the NEV sales volume accounted for 5.8% of the total passenger vehicle sales volume in China, and EREVs accounted for 2.8% of China's NEV market in terms of sales volume, according to the CIC report.

The following diagram illustrates Li ONE's certain features and specifications.



| Model | Li ONE |
|---------------------------------------|---|
| Length*Width*Height (mm) | 5,030*1,960*1,760 |
| Wheelbase (mm) | 2,935 |
| NEDC range (km) | Total range: 1,080 Range powered by battery: 188 Range powered by extension system: 892 |
| Range extension system specifications | 1.2-liter turbo-charged engine/100-kW electric generator/55-liter fuel tank |
| Electric motor power (kW) | Rear-drive: 145/Front-drive: 100 |
| Battery capacity (kWh) | 40.5 |
| 0-100 km/h acceleration (s) | 6.5 |
| MSRP (RMB) | 338,000 |

We are dedicated to serving the mobility needs of families in China. To this end, we strategically focus on NEVs within a price range of RMB200,000 (approximately US\$31,000) to RMB500,000 (approximately US\$76,000). As one of the most competitive SUV models in China, Li ONE has been well positioned to capture the huge growth opportunity of the SUV segment. With growing purchasing power, families in China tend to choose SUVs for daily commutes and weekend family trips. We believe that Li ONE offers our users the performance, functionality, and cabin-space of a large premium smart SUV while priced close to a compact premium SUV.

We believe that automotive technologies will continue to evolve, and as new technologies enable us to create more compelling products for users to address their needs, we evolve our products as well.

- Our existing product, Li ONE, utilizes our proprietary EREV solution, which enables families to enjoy all the benefits of a premium SUV while free from range anxiety. We are developing our X platform, which succeeds the existing EREV platform for Li ONE and is equipped with our next-generation EREV powertrain system. We plan to launch the first product on our X platform, a full-size premium extended-range electric SUV, in 2022, and to launch two additional SUVs on our X platform in 2023.
- We are investing heavily in the HPC BEV technologies. We focus on developing HPC BEVs, which we believe will deliver superior charging experience. Charging under our planned HPC network will be faster, cheaper, and more accessible. We are developing two platforms, Whale and Shark, for our future HPC BEVs. Starting from 2023, we plan to launch at least two new HPC BEV models each year.
- We believe that Level 4 autonomous driving will be the primary operating model for all vehicles in the foreseeable future. We are investing significantly in our proprietary autonomous driving technologies. Starting from 2022, all our new vehicle models will be equipped with necessary hardware compatible with in-house developed, future Level 4 autonomous driving as a standard configuration, and we will continue to optimize our autonomous driving solutions leveraging our full-stack proprietary software development capabilities. For different levels of autonomous driving, see “Industry Overview—The Future Trend: Smart Vehicles.”

Since our inception, we have been leveraging technologies to create value for our users. We have invested in in-car technologies to provide joyful driving and riding experiences for families. We have developed our signature four-display interactive system, full-coverage in-car voice control system, and autonomous driving technologies. Furthermore, our utilization of FOTA upgrades enables us to introduce additional functionality and improve vehicle performance continuously throughout the entire vehicle lifecycle.

We have digitalized our user interactions and established our own direct sales and servicing network to continuously improve operating efficiency. With our integrated online and offline platform, we can achieve higher efficiency in sales and marketing than automakers that rely on third-party dealerships to reach customers. In particular, we have developed a data-driven, closed-loop digital platform to manage all user interactions from sales leads to test drives to purchases and even to user reviews, which enables us to significantly reduce user acquisition costs.

Quality is essential to our business. We manufacture in-house and collaborate with industry-leading suppliers to ensure the high quality of our vehicles. We have built our own manufacturing base in Changzhou, Jiangsu Province, China, which allows our engineering and manufacturing teams to seamlessly collaborate with each other and streamline the feedback loop for rapid product enhancements and quality improvements. We have also implemented strict quality control protocols and measurements for selecting and managing our suppliers. As of March 31, 2021, Li ONE was the only large SUV that has received top ratings under all of the China Insurance Automotive Safety Index (C-IASI), the China Automobile Health Index (C-AHI), and the China-New Car Assessment Program (C-NCAP), according to the CIC Report.

The Challenge Facing China's NEV Market

We believe that smart electric vehicles represent a trend of the automotive industry. China is both the largest passenger vehicle market and the largest NEV market in the world as measured by sales volume. China's NEV market is currently skewed towards BEVs, as 81.1% of the NEVs sold in China in 2020 were BEVs, according to the CIC Report. However, the development of NEVs in China is currently facing one fundamental challenge: the inconvenience of energy replenishment. The inconvenience of, and lengthy time needed for, BEVs' charging solutions cause range anxiety, which limits use cases and impedes the wider acceptance of BEVs in China. As a result, sales volume of BEVs represents only 4.7% of sales volume of total passenger vehicle in 2020, according to the CIC Report.

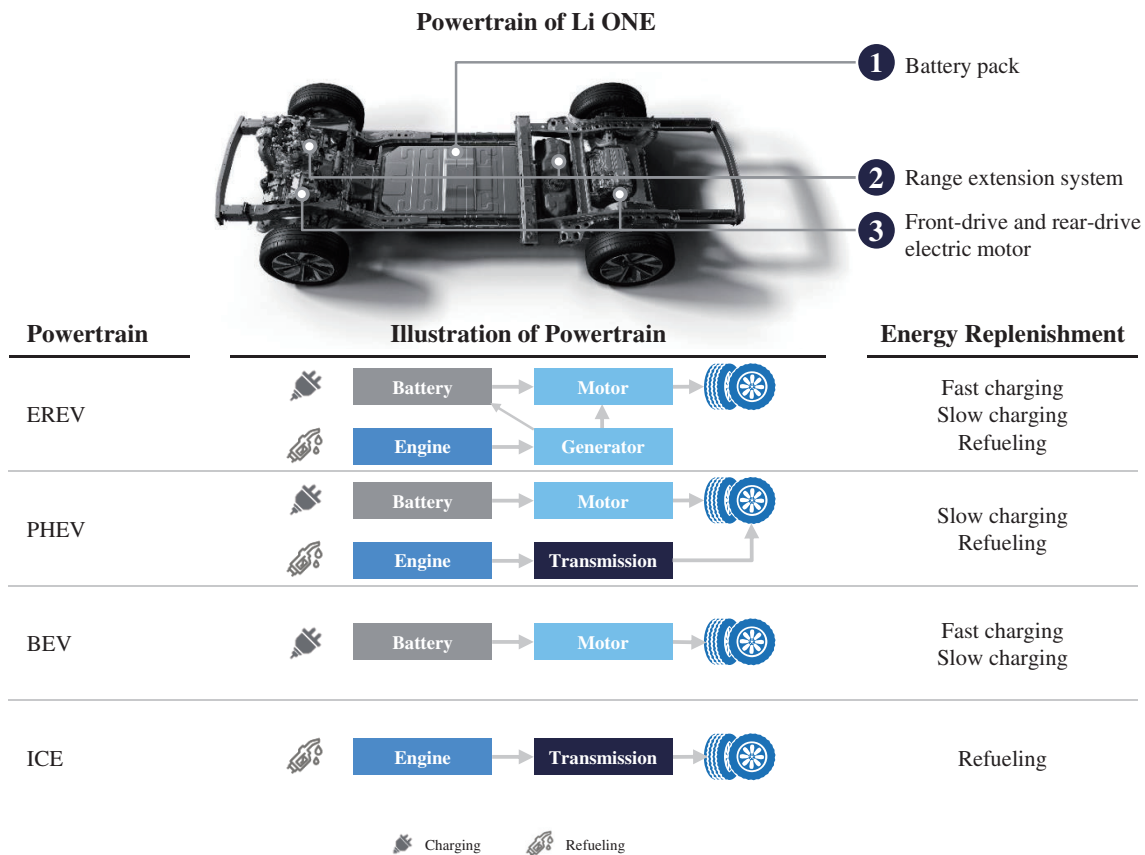
China faces a problem of inadequate private and public fast charging infrastructure. The development of private charging infrastructure is affected by factors such as limited residential parking space in cities with high population density, low percentages of residential parking space suitable for installing home charging stalls, and power grid capacity limits in aged residential areas. As of December 31, 2020, fewer than 25% of families in first-tier cities in China had parking space suitable for installing home charging stalls, compared with over 70% of families in the United States, according to the CIC Report. As a result, a substantial number of BEV owners in China have to rely on public charging infrastructure. As of December 31, 2020, the ratio of NEV parc to public fast charging stalls was 15.9 to 1, according to the CIC Report. This demonstrates the insufficient number of public fast charging stalls in China to support the growth of BEVs.

In addition, existing charging solutions are time-consuming and have always troubled BEV owners as they usually take between 30 minutes and 60 minutes to charge a BEV. Considering the additional waiting time, the total time for waiting and charging is longer than consumers' expectation and thus causes inconvenience to consumers.

Our Solutions

To address the challenge facing China's NEV market, any NEV energy replenishment solution must be at least as convenient and efficient as an ICE vehicle energy replenishment solution and also must demonstrate commercial viability. We have developed an EREV solution and are also investing in the HPC BEV solution as both solutions could provide users with convenient energy replenishment experience that is comparable to ICE vehicles.

The following diagram illustrates our EREV powertrain and the difference between EREVs as compared to PHEVs, BEVs, and ICE vehicles.



EREV Solution

We have developed our proprietary EREV technologies and applied them to our first model, Li ONE.

An EREV is purely electric-driven by its electric motor, but its energy source and power come from both its battery pack and range extension system. A range extension system generates electricity with a dedicated ICE designed with high fuel consumption efficiency, an electric generator, and a speed reducer to connect them. Our Li ONE electric propulsion system consists of a 145-kilowatt rear-drive electric motor, a 100-kilowatt front-drive electric motor, and a 40.5-kilowatt-hour battery pack, which supports an electrically powered NEDC range of 188 kilometers. Li ONE's range extension system consists of a 1.2-liter turbo-charged engine configured and fine-tuned for EREV purpose, a 100-kilowatt electric generator, and a 55-liter fuel tank. With its integrated powertrain system, Li ONE delivers a total NEDC range of 1,080 kilometers and energy efficiency of 6.05 liters per 100 kilometers or 17.7 kilowatt-hours per 100 kilometers, depending on its driving mode, according to the CIC Report.

Li ONE's energy can be replenished by slow charging, fast charging, and refueling. Li ONE can operate even when users have no access to charging infrastructure, thereby completely eliminating range anxiety. Benefiting from its all-electric-driven propulsion, Li ONE offers a similarly high-quality driving experience to that of BEVs, such as smooth acceleration (acceleration from zero to 100 kilometers-per-hour in 6.5 seconds) and superior NVH performance. The overall energy consumption level of Li ONE is much lower than that of ICE vehicles in a similar class, as a result of its high energy efficiency range extension system. In addition, our Li ONE users can also benefit from vehicle-related tax exemptions in China and local government policies in favor of NEVs in certain cities in China, such as no quota limitations for vehicle license plate application and exemption from traffic restrictions.

Our next-generation EREV platform can support longer range, higher thermal efficiency, and better NVH performance. It further enhances integration of the range extension system and the electric motors to support higher electric power output and better acceleration performance. It leverages a world-class chassis to support a larger vehicle body and provide optimal driving experience and superior vehicle passing capability.

With the unique capabilities and features, we believe that our EREV technologies will help accelerate the adoption of electric vehicles in China and contribute to China's national initiatives to build a low-carbon-emission society.

HPC BEV Solution

As next-generation electric vehicle technologies continue to advance, we believe that it is the right time to introduce an HPC BEV platform and future HPC BEV models. A number of ultra-fast charging technologies, such as high C-rate battery, high-voltage platform, and HPC network, have emerged. We have been investing in the technology advancement in these areas and plan to develop ultra-fast charging solutions, which aim to effectively address the inconvenience of energy replenishment for BEVs. We plan to develop a high C-rate battery to balance the cost, longevity, safety, and charging and discharging rate. We are also developing key parts of the high-voltage platform, such as a high-voltage air compressor. To facilitate commercialization of our HPC BEVs, we plan to deploy an HPC network that consists of ultra-fast charging stations. Starting from 2023, we plan to launch at least two new HPC BEV models each year. As a new entrant into the BEV market, we believe our proven product defining capability, as substantiated by the track record of developing Li ONE, deep understanding of the needs of families, and wide recognition of our brand and products provide

a solid foundation for competing with peer BEV manufacturers. We also believe our HPC BEVs, which will be empowered by the next-generation electric vehicle technologies developed with our strong research and development capabilities, will also significantly improve charging efficiency and thereby effectively eliminate range anxiety, improve driving experience, and differentiate us from our competitors. Our existing research and development capabilities and accumulated know-how for EREVs, which we are leveraging in developing BEVs in areas such as autonomous driving, control algorithm, and electric-driven system, would also serve as our competitive advantage. We strategically plan to expand our product line to launch both EREV and BEV models within our target price range so as to build a solid brand trusted by families.

OUR INNOVATION

We believe that our success is attributable to our first mover advantage in the successful commercialization of EREVs, application of our advanced technologies and successful business model, and our strong research and development capabilities. Our track record of innovations and our continued success in a competitive industry are widely recognized.

We are the first to successfully commercialize EREVs in China. Prior to the release of Li ONE, our first model, there were a few mass-produced EREV models around the world, but they either had limited sales volume in China or had discontinued production. Our Li ONE enables users to enjoy all the benefits of an electric vehicle while freeing them from the range anxiety typically associated with BEVs. According to the CIC Report, Li ONE is the first EREV model that offers battery capacity of over 40 kilowatt-hours. The battery capacity it offers is also the largest among all EREV models in the world. Li ONE is also the first vehicle in the world to have a thermal management system that integrates battery, air conditioner, and range extension system, which achieves more efficient thermal management and utilization. In addition, Li ONE is the first delivered model equipped with the four-display interactive system and the first to operate under an Android Automotive and Linux dual system, which is more reliable and secure.

We have also demonstrated our unique ability to continually use our proprietary technologies to improve our current and future models, offer superior user experience, and maintain our leadership position in the industry innovations. We have developed our proprietary EREV powertrain technologies and applied them to our Li ONE. We are currently investing in next-generation electric vehicle technologies, which we believe will enable us to introduce leading HPC BEVs in the future. Such BEV technologies primarily include high C-rate battery pack, high-voltage platform, thermal management system, and HPC network. We will also apply the intelligent interactive systems, including in-vehicle perception system, fusion map, vehicle cloud network (Mesh), and integrated vehicle control and computing unit, to provide premium in-vehicle experience to our users. See “Business—Technology.”

Our successful business model is demonstrated by our own manufacturing and effective quality control capabilities and our high sales and marketing efficiency. We manufacture in-house in our own Changzhou manufacturing facility and collaborate with industry-leading suppliers to ensure the high quality of our vehicles. Our engineering and manufacturing teams seamlessly collaborate with each other and streamline the feedback loop for rapid product

enhancements and quality improvements. We apply rigorous standards in the vehicle development and validation process, and benchmark quality control best practices of traditional premium automakers to enhance testing and validation. Furthermore, we digitalized our user interactions and established our own direct sales and servicing network to continuously improve operating efficiency. With an integrated online and offline platform, we can achieve higher efficiency in sales and marketing than automakers that rely on third-party dealerships to reach customers. Compared with incumbent automakers' dealership model in China, our direct sales and servicing network is more efficient due to the shortened decision-making process and less potential conflict of interests.

As an emerging automaker, we heavily rely on research and development to establish and strengthen our market position. Our Beijing and Shanghai research and development teams are developing electric vehicle technologies, such as next-generation powertrain system, high C-rate battery, high-voltage platform, ultra-fast charging technologies, autonomous driving technologies, next-generation intelligent cockpit, operating systems, and computing platforms. We also maintain a production engineering and technology center in Changzhou, Jiangsu Province, China. As of March 31, 2021, we had 1,633 employees engaging in research and development, including automotive design and engineering, intelligent systems, and autonomous driving departments. Our research and development is led by our visionary management team with an average of over 17 years of industry experience.

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors.

Extraordinary and trend-setting product defining capability

Our first product, Li ONE, has achieved success. We started the volume production of Li ONE in November 2019 and released the 2021 Li ONE on May 25, 2021. As of July 31, 2021, we delivered over 72,000 Li ONEs. In 2020, Li ONE ranked as the best-selling new energy SUV model in China, according to the CIC Report.

The success of Li ONE is a strong testament to our insight into user demand and our product defining capabilities. Before we launched Li ONE, we saw the demand for multi-use SUVs from families in China. Our extraordinary product defining capability enables us to design Li ONE in anticipation of the demand for multi-use SUVs from families while balancing performance, configurations, costs, and technologies. Li ONE is designed to satisfy the needs of each family member. For example, Li ONE delivers high safety performance for the family; Li ONE designs a four-display interactive system for the driver and passengers to ensure that each of them can have a convenient and joyful driving and riding experience; Li ONE offers power seats for all passengers in the second row for extra comfort; and Li ONE's third-row seats can be used or folded to provide extra storage space for family trips. Our innovations

greatly improved the user experience by introducing trend-setting vehicle designs and features, which meet or exceed user expectation resulting in a highly positive reception among our users that made us the best-selling new energy SUV model in China in 2020, according to the CIC Report.

Li ONE is a proven success catering to the needs of families in China and has effectively addressed the current challenge to BEVs in terms of energy replenishment. The success of Li ONE demonstrates our extraordinary product defining capabilities, which lay a solid foundation for the development of future models, including both EREV and BEV models.

Proprietary EREV and BEV technologies

Li ONE is the first successfully commercialized EREV in China. Our proprietary range extension system enables users to enjoy all the benefits of an electric vehicle while freeing them from the range anxiety typically associated with BEVs.

Our powertrain system, including the range extension system, is equipped with FOTA upgrades capability. With high volume closed-loop data feedback from the daily use of our vehicles, we are able to continuously optimize the control algorithm and software configuration of our range extension system through FOTA upgrades.

The solid delivery record of Li ONE demonstrates our capability to successfully leverage EREV technologies to deliver the superior performance and functionalities in our product designing, including the elimination of range anxiety, the delivery of safe and superior driving and riding experience, and the low running cost.

Furthermore, we have accumulated technologies and experience in electric-driven system, FOTA upgrades, and control algorithm optimization on our existing EREV platform. These technologies and experience will accelerate the development of our X, Whale, and Shark platforms and empower our development of future platforms.

With the goal of launching HPC BEVs, we are investing in next-generation electric vehicle technologies, including high C-rate battery, high-voltage platform, and ultra-fast charging since 2020. We were one of a few automakers to have started investing in these advanced technologies in 2020. We believe that we are well-positioned to commercialize research and development in these areas. We are developing two platforms, Whale and Shark, for our future HPC BEVs, and we plan to launch at least two new HPC BEV models each year starting from 2023.

Smart vehicle solutions delivering superior user experience

Capitalizing on advanced technologies in the industry, we have developed proprietary smart vehicle solutions to significantly enhance our user experience.

Li ONE is equipped with a high-performance Qualcomm 820A platform. We also use an Android-Linux dual system for in-car interactive controls. Our signature four-display interactive system and full-coverage in-car voice control system offer superior user experiences for both drivers and passengers.

Throughout the vehicle lifecycle, FOTA upgrades enable us to continuously add new features to our smart solutions and improve system performance. We also leverage our cloud capability to remotely monitor and respond to vehicle conditions to ensure the high performance of all our vehicles.

We collaborate with global leading partners, such as Bosch, to develop our ADAS solutions. All Li ONEs are equipped with ADAS as a standard feature, which makes the driving and riding experiences much safer and easier. Beginning on June 1, 2021, all Li ONEs are equipped with navigation on ADAS (NOA) as a standard configuration, supported by two Horizon Robotics Journey 3 AI acceleration processors for autonomous driving and five fifth-generation millimeter-wave radars by Bosch.

In December 2020, we signed a memorandum of understanding for collaborative business engagement with NVIDIA Corporation and its Chinese partner. Through this partnership, we plan to launch our full-size extended-range premium smart SUV, with the powerful NVIDIA Orin SoC chipset in 2022, which makes us one of the first few automakers adopting this chipset. Meanwhile, we leverage our full-stack proprietary software development capabilities to introduce closed-loop data-driven autonomous driving solutions, and prioritize autonomous driving development based on high-frequency user scenarios. We believe that we will be one of the first automakers that deliver Level 4 autonomous driving solutions to consumers. See “—Technology—Autonomous Driving” for more information.

High efficiency in sales and marketing

We have developed our own integrated online and offline platform to interact directly with users, from sales leads to user reviews. With fully digitalized processes and continuous data-driven optimization, we have achieved much higher efficiency in sales and marketing than automakers that rely on third-party dealerships to reach customers.

We have established our own direct sales and servicing network. Compared with incumbent automakers’ dealership model in China, our sales and servicing network is more efficient due to the shortened decision-making process and less potential conflict of interests. In December 2020, our vehicle delivery per retail store was over 100, compared with an average of approximately 50 of our peers in China, according to the CIC Report.

Our high sales and marketing efficiency allowed us to achieve profitability at a relatively early stage. We achieved positive gross margin in the first full quarter of delivery (the first quarter of 2020) and achieved positive free cash flow (represents operating cash flow less capital expenditures) in the second full quarter of delivery (the second quarter of 2020), which is the fastest among our peers in China, according to the CIC Report.

Effective quality control capabilities

Quality is essential to our business. We have built our own Changzhou manufacturing base, which allows us to implement strict quality control protocols and measurements throughout the manufacturing process. Our engineering and manufacturing teams collaborate with each other seamlessly and are able to incorporate user feedback for rapid product enhancements and quality improvement.

We apply rigorous standards in the vehicle development and validation process. We benchmark quality control best practices of traditional premium automakers to enhance testing and validation.

We work with world-class suppliers with high quality standards. Our key suppliers include global leaders such as Bosch and CATL. We also implement strict quality control protocols and measurements to select and manage suppliers.

Combination of expertise from automotive, smart device, and internet industries

Our team has tremendous experience in their areas of expertise. The key members of our visionary management team have an average of over 17 years of industry experience. Mr. Li Xiang, our founder, chairman, and chief executive officer, is a successful serial entrepreneur in China's internet industry. Before founding our company, Mr. Li founded Autohome Inc. (NYSE: ATHM) and built it to become the world's largest automobile portal.

The senior members of our teams come from traditional and smart automotive, smart device, and internet industries. They collaborate closely and complement each other to drive innovations within our company. For example, our autonomous driving solutions are being developed by drawing on the research and development strengths of our various teams, including smart device team in terms of perception, algorithm team in terms of planning, and vehicle research and development team in terms of control.

Our culture combines the innovation mindset, fast-cycle product development, and adaptive processes of the best technology companies with the high reliability and operational excellence of the best automotive companies.

OUR STRATEGIES

We aim to become a leading player in China's NEV market. We provide families with safe, convenient, and refined products and services. We aspire to create a sustainable path for everyone to embrace vehicle electrification. We intend to pursue the following strategies to achieve our mission.

Continue to innovate in electrification and successfully launch future EREV and BEV models

We will continue to develop new NEV models with best-in-class performance. We plan to introduce a next-generation EREV platform in our three new vehicles planned for 2022 and 2023. With next-generation EREV technologies, we aim to support longer range, higher thermal efficiency, and better NVH performance of our EREVs.

We are investing in the research and development of next-generation electric vehicle technologies including high C-rate battery, high-voltage platform, and ultra-fast charging technologies. Leveraging these technologies, we are developing two platforms, Whale and Shark, for our future HPC BEVs. Starting from 2023, we plan to launch at least two new HPC BEV models each year, as we believe those new HPC BEV models can also effectively eliminate the range anxiety with the next-generation technologies and deliver superior user experience, with which we will be able to cover a broader market. We aim to build a solid brand trusted by families and selectively expand our product line to offer both EREV and BEV models within our target price range.

Continue to innovate in vehicle intelligence and autonomous driving

We are dedicated to continuously improving the driving experience of our users and delivering superior Level 4 autonomous driving to users. We intend to continue to enhance our smart-vehicle solutions, and invest in progressive technologies and proprietary smart vehicle solutions, particularly by increasing computing power and bandwidth. Furthermore, we plan to further enhance our Level 2 autonomous driving currently equipped on our vehicles and equip our future models with necessary hardware compatible with in-house developed, future Level 4 autonomous driving as a standard configuration, and we will continue to optimize our autonomous driving solutions leveraging our full-stack proprietary software development capabilities.

Further expand sales network and optimize efficiency

We plan to expand to broader regions across China to reach new prospective users. We plan to open retail stores and delivery and servicing centers as on-the-ground outposts for our users, and authorize and cooperate with third-party body and paint shops to efficiently and effectively extend our service coverage.

We plan to optimize our sales and marketing efficiency by leveraging our integrated online and offline platforms. In addition, we will continue to strengthen our digitalized system to integrate and connect all stages of the vehicle sales and servicing process to achieve higher efficiency in sales and marketing than automakers that rely on third-party dealerships to reach users.

Continue to pursue operational excellence and cost improvement

As vehicles continue to integrate increasingly complex and mission-critical software, we believe that ensuring the quality of that software is of increased importance. We intend to allocate a larger proportion of our development efforts to improving software quality while continuing to incrementally improve our vehicle hardware.

Meanwhile, we will continue to optimize our costs of operation. We will follow a design-for-cost philosophy in which we design vehicles from the beginning in a way that limits the all-in cost of manufacturing, selling, and distributing the end product. We will continue to minimize personalized configuration options to achieve the highest possible economies of scale. For example, personalized configurations involve extra types of raw materials and components, which in turn require increased procurement and inventory management costs resulting in sluggish inventories when the demand is unpredictable. From a manufacturing perspective, personalized configurations also hinder mass production in our facility and adversely affect economies of scale. In addition, due to our agile development and procurement processes, we expect to be able to quickly qualify new components for our vehicles as their costs decrease.

OUR VEHICLES

We design, develop, manufacture, and sell premium NEVs in China. Our first production vehicle, Li ONE, is a six-seat, large premium electric SUV equipped with a range extension system and advanced smart vehicle solutions. We started volume production of Li ONE in November 2019 in our own Changzhou manufacturing facility. On May 25, 2021, we released the 2021 Li ONE. We plan to launch our second model, a full-size premium smart extended-range electric SUV, in 2022, and two more extended-range electric SUV models in 2023. All three future EREV models will leverage the X platform technologies and share same powertrain and chassis design. We are developing our two more HPC BEV platforms, Whale and Shark. Starting from 2023, we plan to launch two new HPC BEV models each year.

Li ONE

Li ONE is a large premium smart extended-range electric SUV. This six-seater, which has a 5,030-millimeter length with a 2,935-millimeter wheelbase, and offers a combination of long range, high performance, efficient energy consumption, and flexible power supplies.

- ***Long Range.*** Li ONE has an NEDC range of 1,080 kilometers. Its 40.5-kilowatt hour lithium-ion battery pack is capable of supporting a purely electrically powered range of 188 kilometers.
- ***High Performance.*** Equipped with all-wheel drive and two electric motors, Li ONE is able to accelerate from zero to 100 kilometers per hour in 6.5 seconds. Its EREV powertrain can deliver a maximum of 245 kilowatts of power and 455 Newton meters of torque. The performance of Li ONE's powertrain is comparable to that of an ICE vehicle powered by a 3.0-liter, six-cylinder, turbo-charged engine.
- ***Efficient Energy Consumption.*** The high-efficiency EREV powertrain and the advanced thermal management system help Li ONE achieve a fuel consumption rate of 6.05 liters per 100 kilometers and an electricity consumption rate of 17.7 kilowatt-hours per 100 kilometers, according to the CIC Report.
- ***Flexible Power Supplies.*** Li ONE's energy can be replenished by slow charging, which takes approximately six hours for a full charge with a seven-kilowatt charger, fast charging, which takes approximately 30 minutes to increase the displayed state of charge from 20% to 80% with a 60-kilowatt charger, and refueling. It can operate even when consumers have no access to charging infrastructure. We currently offer three driving modes to cover different use case scenarios for our users.

At an MSRP of RMB338,000 (approximately US\$52,000), Li ONE includes over 40 premium and technology features in one standard package, which are typically only included on vehicles with an MSRP above RMB600,000 (approximately US\$92,000) in China. Users only need to choose exterior and interior colors and wheel style.

- ***Premium Features:*** Napa leather cover, seat heating, lumbar support, and massage functions for first- and second-row seats, extra leg room for third-row passengers, laminated acoustic glass, silver-plated heat insulated windshield, and tires with acoustic technology.
- ***Technology Features:*** NOA supported by rich sensors and redundant capable hardware along with full-stack in-house developed software, four-display interactive system with advanced navigation and entertainment applications, full-coverage in-car voice control system, remote mobile control, and FOTA upgrades.

Li ONE is equipped with comprehensive active and passive safety solutions. Li ONE includes the following key safety measures:

- **Active Safety.** Our ADAS includes eight key safety functions: automatic emergency braking, forward collision warning, intelligent headlight control, lane departure warning, blind spot detection, door open warning, front cross traffic alert, and rear cross traffic alert. For a discussion of key features of ADAS, see “—Technology—Autonomous Driving.”
- **Ultra-High Strength, Heavy-Duty Steel-Aluminum Body.** Li ONE uses a strong heavy-duty steel-aluminum body with the torsional stiffness of 31,000 Newton meters per degree.
- **Passenger Protection.** Li ONE is equipped with seven air bags for comprehensive protection to the driver and passengers.
- **Battery Safety.** The battery pack is securely sealed in a high-strength aluminum alloy casing that is waterproof and dustproof at IP67D, and is further protected by four longitudinal anti-collision beams. We have also implemented a battery management system that automatically monitors temperature, power output, and other status of the battery pack.

In January 2021, we announced the safety evaluation results for Li ONE published by the C-IASI Management Center based on crash tests. Li ONE achieved the G rating, the highest safety rating, in three out of four evaluation categories: occupant safety, pedestrian safety, and assistance safety. In the category of crashworthiness and repair economy, Li ONE received an M rating, one of the top results received by large premium SUVs. Also in January 2021, Li ONE received five-star ratings for both volatile organic compounds & vehicle odor intensity, and electromagnetic radiation in the C-AHI assessment by China Automotive Engineering Research Institute Co., Ltd. In February 2021, Li ONE achieved a five-star safety rating in the latest C-NCAP test released by China Automotive Technology and Research Center Co., Ltd. Li ONE received a weighted score of 92.2%, including 94.73% on occupant protection, 72.89% on pedestrian protection, and 100% on active safety. As of March 31, 2021, Li ONE was the only large SUV model that received top ratings under all of the C-IASI, C-AHI, and C-NCAP, according to the CIC Report.

Li ONE demonstrates distinctive strengths in the following key aspects as compared to other vehicle models in the same price range as well as competing NEV models.

- **Range.** Li ONE’s BEV peers typically have an NEDC range of approximately 400 to 500 kilometers. Enabled by the EREV powertrain, Li ONE’s NEDC range of 1,080 kilometers is much longer, compared with an NEDC range of approximately 330 to 860 kilometers of other EREV peers.

- **Power Supply.** Other competing NEVs generally have two energy replenishment options—fast charging and slow charging—and some NEVs can also replenish energy by battery swap. Li ONE can replenish electricity by fast charging or slow charging and replenish petrol fuel by refueling, and can operate even when users have no access to charging infrastructure, thereby completely eliminating range anxiety and addressing the challenge of inadequate charging infrastructure in China. Li ONE has a purely electrically powered range of 188 kilometers and a range powered by fuel tank of 892 kilometers, which result in an NEDC range of 1,080 kilometers in total when powered by the EREV powertrain.
- **Energy Consumption Level.** Li ONE is able to achieve a fuel consumption rate of 6.05 liters per 100 kilometers, outperforming other comparable SUV models with a fuel consumption rate typically ranging from approximately 7.9 to 9.1 liters per 100 kilometers. The electricity consumption rate of 17.7 kilowatt-hours per 100 kilometers is also comparable to that of the BEV peers, which typically ranges from 16.5 to 18.3 kilowatt-hours per 100 kilometers, according to the CIC Report.
- **Safety.** As of March 31, 2021, Li ONE was the only large SUV that has received top ratings under all of the C-IASI, the C-AHI, and the C-NCAP, according to the CIC Report.

Currently, our Li ONE users can benefit from vehicle-related tax exemptions in China, including vehicle purchase tax and vehicle and vessel tax, and local government policies in favor of NEVs in certain cities in China, such as no quota limitations for vehicle license plate application and exemption from traffic restrictions.

Future Vehicles

In the future, we plan to develop new vehicles with new generations of EREV or BEV powertrain and smart technologies to target an even broader market. We plan to launch a full-size premium smart extended-range electric SUV in 2022 and two more SUV models in 2023. They are currently under development and will be equipped with our next-generation EREV powertrain. We are developing two platforms, Whale and Shark, for our future HPC BEVs. Starting from 2023, we plan to launch at least two new HPC BEV models each year.

BUSINESS

Starting from 2022, all our new vehicle models will be equipped with necessary hardware compatible with Level 4 autonomous driving as a standard configuration, and we will continue to optimize our autonomous driving solutions leveraging our full-stack proprietary software development capabilities.

| Platform | Powertrain | Energy Replenishment | Positioning | Autonomous Driving Hardware |
|----------|---------------------------|---|----------------------|-------------------------------------|
| X | EREV (next-generation) | Slow Charging Fast Charging Refueling | Premium SUVs | Level 4 (standard configuration) |
| Whale | HPC BEV | Slow Charging Fast Charging Ultra-Fast Charging | Space Priority | Level 4 (standard configuration) |
| Shark | HPC BEV | Slow Charging Fast Charging Ultra-Fast Charging | Performance Priority | Level 4 (standard configuration) |

The following diagram illustrates the development roadmap with the expected time of delivery of our future electric vehicle models.



Leveraging the know-how accumulated from our delivery and servicing of Li ONEs, we plan to equip our new vehicle models with optimized software (such as control algorithm) and hardware (new EREV and HPC BEV powertrain systems) as well as enhanced NVH performance. In addition, the planned adoption of high-voltage platform in our future HPC BEV models could further enhance their driving range by reducing energy consumption. Furthermore, our intelligent cockpit and autonomous driving technologies have been designed with expandability and transferability across models, which allow us to smoothly migrate our design language, interaction experience, and integrated systems into our future models to further improve the intelligence level of all future models.

TECHNOLOGY

EREV Powertrain

We have developed our proprietary EREV technologies and applied it to our first model, Li ONE, and our 2021 Li ONE released on May 25, 2021. An EREV is purely driven by its electric motor, but its energy source and power come from both its battery pack and range extension system. Using EREV technologies, Li ONE's energy can be replenished by slow charging, fast charging, and refueling. Because Li ONE can operate even when users have no access to charging infrastructure, it completely eliminates range anxiety for users.

Benefiting from its all-electric-driven propulsion, Li ONE offers a similarly high-quality driving experience to that of BEVs, such as smooth acceleration, and maintains equivalent NVH performance compared to other premium SUV models manufactured by the Company's industry peers, according to the CIC Report. The overall energy consumption level of Li ONE is much lower than that of ICE vehicles in a similar class, as a result of its high energy efficiency range extension system.

Li ONE users also enjoy lower total running costs compared with ICE vehicle owners, including lower aftermarket service costs and energy consumption costs. In addition, Li ONE users can also benefit from vehicle-related tax exemptions in China and local government policies in favor of NEVs in certain cities in China, such as no quota limitations for vehicle license plate application and exemption from traffic restrictions.

With all of the foregoing, we believe that our EREV technologies will help accelerate the adoption of electric vehicles in China and contribute to China's national initiatives to build a low-carbon-emission society. For consumers, we believe that Li ONE has a competitive advantage over ICE vehicles in terms of performance, economy, and user experience.

Li ONE's EREV powertrain primarily consists of an electric propulsion system and a range extension system. We developed in-house the core controlling software of both systems.

- ***Electric Propulsion System.*** The electric propulsion system consists of front and rear dual electric motors and a battery pack. Li ONE is equipped with a front electric motor with a maximum of 100 kilowatts of power and 240 Newton meters of torque, and a rear electric motor with a maximum of 145 kilowatts of power and 215 Newton meters of torque. Li ONE uses a 40.5-kilowatt hour lithium-ion battery pack, placed between the front and rear axles. An in-house developed software controls the functioning of the motors and the batteries, enabling efficient battery management, smooth shifts of driving modes, and kinetic energy recovery.

- ***Range Extension System.*** The range extension system consists of a generator, a turbo-charged engine, and a fuel tank. It has a 1.2-liter, 3-cylinder, turbo-charged engine that can deliver a maximum of 96 kilowatts of power to propel the generator. The 100-kilowatt generator can propel the vehicle or charge the battery pack. The fuel tank has 55 liters of capacity. The range extension system consumes fuel and generates electricity. We developed in-house a control panel to manage the starting and stopping of the range extension system and to control the charge of the battery pack, and a thermal management system to achieve an optimal in-car heat allocation through optimization algorithms.

With our research and development initiatives and substantial performance testing, our proprietary EREV control strategies are optimized to balance the dynamic performance and the NVH performance in our vehicles. We are in the process of developing our second-generation EREV platform, which will utilize new technologies and enhance integration to further achieve optimized performance.

BEV Technologies and Models in Development

We are currently investing in next-generation electric vehicle technologies, which we believe will enable us to introduce leading HPC BEVs in the future. We believe that in order for the HPC BEV platform to be widely adopted, it must provide users with an extraordinary battery charging experience in terms of charging time and accessibility comparable to those of ICE vehicles. Such BEV technologies primarily include high C-rate battery pack, high-voltage platform, thermal management system, and high-power charging (HPC) network.

- ***High C-Rate Battery Pack.*** We are applying new technologies and processes to the development of high C-rate battery cells with 4C fast charging capability. In addition, we will apply highly integrated lightweight design, high collision safety design, and efficient thermal management design in the high C-rate battery pack.
- ***High-Voltage Platform.*** We plan to design a high-voltage platform utilizing a high power density electric powertrain system, leveraging electronic components based on third-generation wide bandgap SiC semiconductor materials and other advanced designs and technologies.
- ***Thermal Management System.*** Our thermal management system will use carbon dioxide (CO₂) as the cold medium solution and we plan to adopt advanced sealing and high-pressure resistance design and proprietary control strategies. The thermal management system is designed to further address winter heating and mileage problems of NEVs.
- ***HPC Network.*** We are currently developing a high-performance HPC network to integrate the power storage function with charging piles and to achieve a superior charging experience.

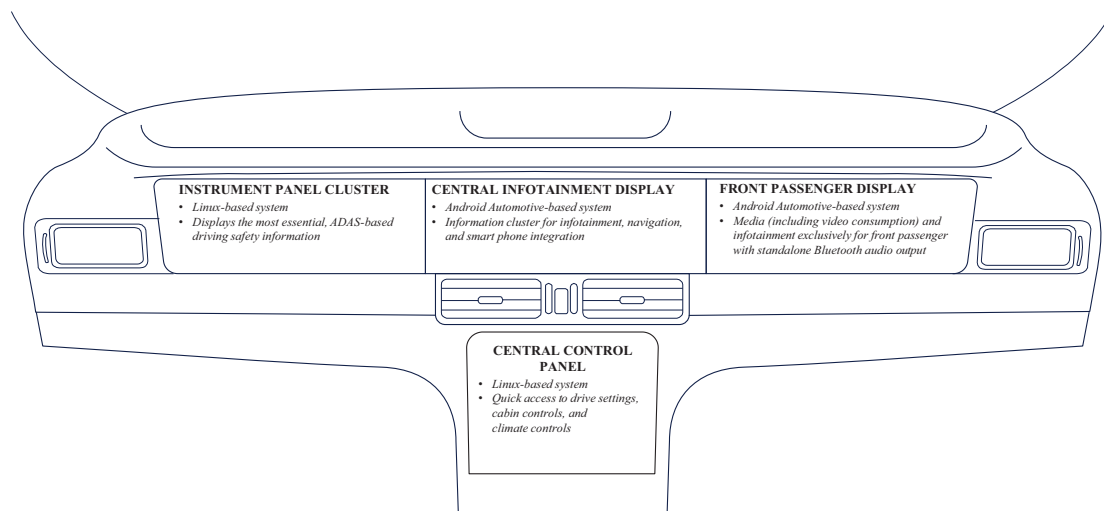
Intelligent Systems

We design our vehicles to provide premium user experiences to families in China through smart interaction and connectivity. We believe that a smart cabin is a future trend for the automotive industry, and we are dedicated to applying smart interactive systems to provide premium in-vehicle experiences. According to the CIC Report, Li ONE is equipped with more advanced vehicle intelligent systems compared to comparable models. Our intelligent cabin initiatives feature a four-display interactive system, full-coverage in-car voice control system, and FOTA upgrades. We self-designed the core software and functions of the four-display interactive system and the full-coverage in-car voice control system, and procured components from third-party suppliers based on our specifications. In addition, we are also developing additional intelligent interactive systems that can be applied to our future vehicles.

Four-Display Interactive System

The signature four-display interactive system delivers convenient, user-friendly services to drivers and passengers via the instrument panel cluster, central information display, front passenger display, and central control panel. We use a Linux-Android Automotive dual system architecture, and the two sets of systems are connected but can still operate independently. The Linux-based system is primarily used for the vehicle driving control, and the Android Automotive-based system is primarily used for in-car entertainment and interaction, for which we developed in-house a user interface interactions between the displays. For instance, under the navigation mode, the navigation app on the central infotainment display can project the important route and traffic information to the instrument panel cluster to ensure better driving safety and convenience. We apply Android-based hibernation and activation algorithms to ensure quick activation of the four displays and their systems. We also equip Li ONE with a high-performance Qualcomm 820A chip. Li ONE is the first delivered model equipped with the four-display interactive system in the world, according to the CIC Report.

Li ONE — Four-Display Interactive System



Full-Coverage in-Car Voice Control System

We also deploy full-coverage in-car voice control system that uses four omni-directional high-sensitivity digital microphones.

This voice control system provides a comprehensive solution for in-car interaction. Passengers can check routes, make phone calls, listen to music and other audio programs, configure system settings, control the vehicle windows, and initiate other activities by talking naturally in the vehicle. The system is smart enough to respond swiftly to frequently used commands. The advanced natural language processing algorithms are able to analyze the human voice with adequate accuracy to enhance the interaction quality of the system. We developed in-house a front-end voice access platform to enable functions such as voice signal de-noising, acoustic echo cancellation, sound source location, and voice isolation and enhancement to provide better user experience.

FOTA Upgrades

Our vehicle systems are designed with extendibility through FOTA upgrades, which improve system performance and enable users to access new features. Our FOTA upgrades can also automatically roll back if there are issues during the upgrading process and retry later. Our FOTA upgrades support concurrent upgrading and driving to provide maximum flexibility to users. Through FOTA upgrades, we are able to add more features to our in-car interactive and entertainment systems, improve powertrain performance, and optimize vehicle and system control algorithms. In December 2020, we introduced our 2.0 vehicle system update for Li ONE via FOTA upgrade, which included a variety of comprehensive improvements in performance, functionalities, and user experience with respect to smart interactive systems, ADAS, and other vehicle controls and functions. Li ONE completed 11 FOTA upgrades in 2020, enhancing driving quality and energy efficiency, optimizing user interface and operating experience, and increasing in-car content offerings.

Future Intelligent Interactive Systems

In addition to the above smart interactive systems that are currently present in our vehicles, we are developing the following smart interactive systems and will apply them to provide premium in-vehicle experiences.

- *In-Vehicle Perception System.* The system is built upon a series of sensors installed through three-dimensional modeling. Different passengers can access the same set of functions and features with varying experience.
- *Fusion Map.* The fusion map integrates the autonomous driving map and the navigation map, which can provide users with a more refined experience with the maps. It also can seamlessly connect the autonomous driving sections and the non-autonomous driving sections.

- *Vehicle Cloud Network (Mesh).* The new generation of vehicle cloud system, Mesh, enables inter-communication among the vehicle, the cloud, and the mobile application in a distributed grid. Even within an intermittent network, all terminals can maintain consistency across the board. As the communication infrastructure of the application layer, the new generation of Mesh technology greatly reduces the development complexity of software for the vehicle, the cloud, and the mobile application, and enhances software quality and user experience.
- *Integrated Vehicle Control and Computing Unit.* We are developing a highly integrated vehicle control and computing unit, or XCU, to enhance vehicle hardware performance and smart vehicle control. The XCU executes cross-domain control calculations among the vehicle powertrain, chassis, central gateway, and body, while cooperating with cloud platforms and other on-board computing units to create smart vehicle control. The XCU is designed with high reliability, high real-time execution, and high data throughput capabilities.

Autonomous Driving

Li ONE is equipped with ADAS, our enhanced Level 2 autonomous driving solution. Our ADAS is optimized and adapted based on the complex road conditions in China. Our current ADAS solution includes over 10 driver assistance features, including adaptive cruise control, automatic emergency braking, automatic parking assist, forward collision warning, intelligent headlight control, lane change assist, lane departure warning, lane keep assist, and side view assist. By the second half of 2021, we will establish our full-stack proprietary software development capabilities that integrates perception, planning, and control. On May 25, 2021, we released the 2021 Li ONE equipped with NOA as a standard configuration, which will be made available to the users through OTA beginning in the third quarter of 2021. Supported by two Horizon Robotics Journey 3 AI acceleration processors for autonomous driving, five fifth-generation millimeter-wave radars made by Bosch, and an 8-megapixel front-view video camera boasting 4K definition, our NOA enables on and off ramp, automatic adaptive acceleration, and lane changes on certain limited access-roads, as well as Fully Automated Parking Assist (FAPA), which is vision-based automatic parking feature.

In addition, we have developed our own proprietary autonomous driving data platform to enhance users' autonomous driving experience. The autonomous driving data platform collects driving data via a "shadow mode" in which the driving decisions and patterns of an actual human driver in various scenarios will be encrypted and uploaded to the cloud database of the autonomous driving data platform where the data will be examined and analyzed via artificial intelligence algorithms and data mining to optimize the autonomous driving system.

We are dedicated to delivering superior Level 4 autonomous driving to users. We plan to equip our full-size premium smart extended-range electric SUV planned for 2022 with the Level 4 autonomous driving hardware as a standard configuration, including the powerful NVIDIA Orin-X SoC chipset with 508 trillion operations per second, high-definition cameras, LiDAR system, millimeter-wave radars, and safety redundant electronic architecture and

chassis control system. To realize the development plan, we have continued to build up our research and development team in autonomous driving and made significant progress in recruiting senior experts and managers in the area.

In December 2020, we signed a memorandum of understanding for collaborative business engagement with NVIDIA Cooperation and its Chinese partner, Huizhou Desay SV Auto. NVIDIA Corporation is a global enterprise in the business of providing graphics processing unit (GPU) technologies with specific expertise in AI and deep learning, and Huizhou Desay SV Auto is a leading automotive electronics product supplier in China. The memorandum of understanding for collaborative business engagement lays a solid foundation for us to continue to develop Level 4 autonomous driving solutions with the technical support of NVIDIA Corporation and Huizhou Desay SV. We plan to launch our full-size extended-range premium smart SUV, with the powerful NVIDIA Orin SoC in 2022, which makes us one of the first few automakers adopting this chipset.

Meanwhile, we leverage our full-stack proprietary software development capabilities to introduce closed-loop data-driven autonomous driving solutions, and prioritize autonomous driving development based on high-frequency scenarios.

RESEARCH AND DEVELOPMENT

As an emerging automaker, we heavily rely on research and development to establish and strengthen our market position. We conduct our research and development activities relating to intelligent vehicle technologies primarily in our headquarters in Beijing, China. On May 1, 2021, our new research and development center in Shanghai, China started its operation. Our Beijing and Shanghai teams are developing electric vehicle technologies, such as next-generation powertrain system, high C-rate battery, high-voltage platform, ultra-fast charging technologies, autonomous driving technologies, next-generation intelligent cockpit, operating systems, and computing platforms. We also maintain a production engineering and technology center in Changzhou, Jiangsu Province, China. As of March 31, 2021, we had 1,633 employees engaging in research and development, including automotive design and engineering, intelligent systems, and autonomous driving departments.

We will strengthen our cooperation with top universities that possess industry-leading technologies such as high-voltage platforms, ultra-fast charging technologies, autonomous driving, next-generation intelligent cockpits, operating systems, and computing units, and other technologies related to our business that would allow us to enhance our intelligent vehicle technologies. Taking advantage of the establishment of our research and developments centers located in Beijing and Shanghai, we plan to recruit more top talents.

Vehicle

Our vehicle research and development team covers all areas of vehicle design, development, and production from concept to completion, including interior and exterior design, body design and engineering, electrical engineering and integration, battery engineering, powertrain technologies, vehicle integration, performance testing, and technology and patent management.

Members of our vehicle research and development team have an average industry experience of approximately ten years in their respective fields, many of whom come from leading global and domestic automakers such as Mercedes-Benz, Nissan, and SAIC Motor.

Intelligent System

Our intelligence system research and development team includes engineers with backgrounds in Internet, artificial intelligence (AI), and smart device. They support our multidisciplinary research efforts on intelligence, connectivity, user interface design, and other areas.

Autonomous Driving

We have a dedicated autonomous driving research and development team. We have implemented a comprehensive plan of developing proprietary autonomous driving technologies for our vehicles. Leveraging our capabilities in system development, algorithms, simulation, solutions development, and system integration, we plan to advance from Level 2 autonomous driving to Level 4 autonomous driving.

VEHICLE DESIGN AND ENGINEERING

We have developed significant in-house capabilities in the design and engineering of NEVs and various components and systems. Our vehicle styling team, which consists of experienced designers from reputable global automakers, has defined “halo” as the design language for our Li Auto vehicle family. We have in-house vehicle development capabilities with core competence in NEV powertrain architecture, chassis, and battery, motor, and electric control systems. In particular, we have developed substantial expertise in design, development, and manufacturing of battery management systems and vehicle control units. We utilize computer-aided engineering simulation analytics throughout our design and engineering process and conduct performance validation and reliability testing in our seven laboratories. Furthermore, our engineering and manufacturing teams work alongside our suppliers and partners in designing key components in order to achieve cost optimization throughout the research and development process and thereafter.

SALES AND MARKETING

Digitalized Sales and Marketing

We have developed our own integrated online and offline platform to interact directly with users, from sales leads to user reviews.

We bring a steady stream of sales leads through three channels: retail stores, media platforms and user word-of-mouth. We convert these leads to registered users in our Li Auto system, which consists of our official website, the Li Auto App, and our WeChat mini-program and official account. The system automatically establishes a user behavior model, records and analyzes the conversion efficiency of each user from lead to registration, and to transaction. Through our data analytics, we constantly optimize the sources of sales leads, product presentation and sales processes. At the same time, through user engagement within our online system, we encourage owners of our vehicles to voluntarily promote our vehicles, generating high-quality sales leads. As a result, a flywheel is formed, leading to higher conversion efficiency and lower user acquisition costs.

Once the user places an order, we provide the user with delivery, finance, and after-sales service through our sales and servicing network. Through accumulation of vehicle operation insights in the closed-loop process, we improve the quality and efficiency of our services, reduce personnel-related expenses and investment in stores and delivery centers, and ultimately reduce offline service costs.

Direct Sales and Servicing Network

We build and operate our own sales and distribution infrastructure and sell our vehicles directly to our users. We believe that our direct sales model not only improves economic and operational efficiency significantly, but also provides our users with superior purchasing experiences consistent with our values and brand image. We have an efficient sales and servicing network and achieved an average of over 100 vehicles delivered per store in December 2020, compared with an average of approximately 50 of our peers in China, according to the CIC Report.

As of July 31, 2021, we had 109 retail stores across major cities in China. Users visit a store for vehicle check-up, test-drive, and order placement. We locate our retail stores in selected shopping malls where our targeted users are likely to patronize, instead of central business districts or landmark buildings.

As of July 31, 2021, we had 42 delivery centers and 29 servicing centers across major cities in China. Delivery and servicing centers perform in-person delivery and maintenance and repairs, and are generally located in the suburbs with convenient transportation.

Prospective users can place orders by paying a deposit of RMB5,000, which becomes non-refundable after 24 hours, via our Li Auto App or our website. Their orders also automatically become confirmed orders after 24 hours following the deposit payment, and no additional deposits are required from the user prior to delivery. Our delivery specialists will then follow up with the users about pre-delivery matters, such as financing and home charger installations. Once the vehicles arrive at logistics centers, our delivery specialists will contact the users to arrange delivery. For users from cities without a Li Auto delivery and servicing center, we can also provide remote delivery services.

Pricing Strategies

We price our vehicles from both demand and supply perspectives with consideration of various factors. On the one hand, we take a user-oriented approach to consider the budget of our target user group and the competitive market position of our vehicles at a given price. We also take a brand- and product-oriented approach to consider the user expectation for the pricing of premium large SUVs under the current competitive landscape where we are positioned. On the other hand, we price our vehicles with reference to market dynamics and our financial performance, and consider our research and development expenses, BOM costs, manufacturing costs, and the gross profit of the vehicles that we may achieve taking into the relevant costs and expenses.

Marketing

We have been able to generate significant media coverage of our company and our vehicles. Our principal marketing goals are to build brand awareness and loyalty, generate sales leads, and integrate user input into the product development process.

We focus our marketing efforts on generating word-of-mouth referrals and creating content for marketing on new media and short-video social media platforms with the goal of increasing our product exposure and building our reputation. Our marketing content includes high-quality videos developed in-house, which elaborate on our product specifications and technologies. We also publish voluntary referrals from our users and videos created by key opinion leaders in areas across technology, travel, and maternal and infant products, all of which represent real user experiences and enhance the popularity of our vehicles. We also leverage the data-driven features of short-video social media platforms to accurately target users by marketing on leading platforms such as Douyin, and Kuaishou. The popularity, efficiency and interactive nature of short-video enable wide reach of our content marketing within a short period of time. We believe that the combination of our high-quality content and the optimization of our marketing channels, in addition to the strong word-of-mouth referrals of our users and our digitalized direct sales system, forms a virtuous cycle from content marketing to sales leads, and in turn to word-of-mouth referrals, which enables us to achieve continued brand exposure and attract high-quality potential users at relatively low marketing spending.

SERVICING AND WARRANTY

We offer a five-year or 100,000-kilometer limited warranty for new vehicles, and an eight-year or 120,000-kilometer limited warranty for battery packs, electric motors, and electric motor controllers. Currently, we also offer each initial owner extended lifetime warranty, subject to certain conditions. We also provide owners of Li ONE free roadside assistance during the warranty coverage 24 hours a day, seven days a week.

We accrue a warranty reserve for the vehicles sold, which includes the best estimates of projected costs to repair or replace vehicles under warranties. These estimates are primarily based on the estimates of the nature, frequency, and average costs of future claims. We reevaluate the adequacy of the warranty accrual on a regular basis. See “Financial Information—Critical Accounting Policies—Product Warranties.” As of March 31, 2021, our accrued warranty amounted to RMB317.7 million (US\$48.5 million).

Owners can have their vehicles serviced either in our servicing centers or Li Auto-authorized body and paint shops. We had a network of 176 servicing centers and Li Auto-authorized body and paint shops covering 134 cities in China as of July 31, 2021.

Value-Added Services

We offer a suite of value-added services to serve our users’ needs and keep them engaged.

To enrich the ownership experiences of our users, we have launched our Li Plus paid membership program currently priced at RMB999 per year. Membership benefits span after-sale services, third-party in-car entertainment services, and life style components. The program currently has four categories of benefits, including paid regular servicing of the vehicle, free vehicle pick-ups and deliveries, unlimited high-speed data plan, and discounts on our service and products offerings. Currently, we also award membership points for successful referrals, which can be used to redeem merchandise in our online store. After we deliver more vehicles, collect more data, and have a better understanding of our users’ needs, we may continuously add more services into the program. Approximately half of our Li Plus paid membership was awarded along with the sales of Li ONE to users without additional charge and the remaining was redeemed by users in our online store using the customer loyalty points.

We also offer certain services embedded within the sale of vehicles, including installation of charging stalls, and vehicle internet connection services.

We cooperate with several commercial banks to facilitate auto finance for our users. We do not charge any financing service fees and are not obligated to facilitate any financing. A month prior to delivery, our delivery specialist will open the auto finance applications, if needed, and the users can complete the procedures on our Li Auto App. As the commercial banks handle the auto finance applications, our users can track the status of their applications on our Li Auto App. Users can also make payments for their purchases on the Li Auto App.

We work with auto insurance companies to facilitate our users' purchase of a variety of auto insurance products, which can be handled by the delivery specialist assigned to each user.

MANUFACTURING, SUPPLY CHAIN, AND QUALITY CONTROL

Manufacturing

We are listed in the catalog of vehicle manufacturers of the MIIT and we manufacture Li ONE in our own Changzhou factory. The Changzhou manufacturing base covers an area of 50 hectares and has constructed shop floor space of approximately 185,000 square meters. It consists of four workshops, stamping, welding, painting, and assembly, and an office building. The current production capacity is 100,000 units per year with a utilization rate of approximately 36% in 2020. Our production capacity can be expanded to 200,000 units per year with additional machinery and production line installation in 2022. We are planning on the reconfiguration of our Changzhou factory for our new model pipeline, especially the full-size premium SUV based on the X platform to be launched in 2022.

The production in our factory is highly automated. We use linear seven-axis robots for our stamping line, which is capable of switching tooling with the press of a button and mixed production of steel and aluminum parts. In the stamping workshop, the high-speed flexible manufacturing line first produces large body panels before fully-automated, quality inspection blue-ray scanning performs 100% of the dimensional inspections on them. In the welding workshop, we achieve 100% automation for all welding spots. In the painting workshop, we use 28 painting robots that ensure consistency of coatings on the body.

Our production management related IT systems and automated production equipment work together, which significantly improve our operating efficiency. For example, screw tightening is critical component for the quality of Li ONE. There are over 1,300 tightening points on Li ONE, of which over 500 are critical. All tightening values are monitored and controlled by the systems to ensure perfect matching of torque value and angle for tightening and the vehicle model. All tightening values and data are uploaded to our manufacturing execution system for monitoring, which can be traced back for over ten years.

Supply Chain

We collaborate with over 190 suppliers for over 1,900 sourced parts to build our Li ONE. We expect to benefit from economies of scale with our production volume ramp-up. We have developed close partnership with suppliers for key parts, such as CATL for battery packs, Inovance for electric motor controllers, Saint-Gobain for windshields, and SDS for multi-mode hybrid transmissions. We consider these companies as our major suppliers. We have maintained relationships with each of these major suppliers since 2019. Pursuant to our agreements with these major suppliers, we generally co-develop customized components with them and then source these components from the suppliers. We enjoy volume-based pricing discounts even though the agreements do not typically include a fixed purchase quantity. We own the IP rights for these co-developed components pursuant to the agreements.

Although we reserve the flexibility to obtain components from multiple sources whenever possible, similar to other players in our industry, we purchase many of the components from a single source, including the multi-mode hybrid transmissions from SDS, for management and operational efficiency. We have, however, pre-qualification measures to identify alternative suppliers as back-up. In light of the market condition and our precautionary measures, we believe that the use of single-source suppliers, which is customary in the industry, does not impose imminent threat to our business sustainability.

We make sourcing decisions taking into account quality, cost, and lead-time. Our supplier quality engineers are responsible for managing the production processes of suppliers to ensure that our quality standards are met. APQP (Advanced Product Quality Planning) and PPAP (Production Part Approval Process) procedures are executed with high standard. We periodically renew and update the terms of our cooperation contracts with our suppliers, including the quantity and price of the supplies, on an ongoing basis to make appropriate adjustments in accordance with historical data.

We implemented a supplier relationship management system to collaborate with our suppliers for forecasting, ordering, receipt and return of goods. Our supply management team works closely with suppliers to ensure the availability of required supply.

We closely monitor the supply of our key components, including semiconductor chips. In light of the global chip shortage following the disruptions to semiconductor manufacturers since October 2020 due to the COVID-19 pandemic and an increase in global demand for personal computers for work-from-home economies, we established a dedicated team to proactively coordinate directly with our chip suppliers to procure sufficient supply. We have entered into supply reserve arrangements with some of our suppliers, including chip suppliers, pursuant to which the suppliers agree to provide us with a safety stock inventory for the components that they provide. We have also reached understanding with many of our suppliers, including chip suppliers, to have them inform us promptly if there is an upcoming shortage of suppliers in advance. Furthermore, CIC, our industry consultant, is of the view that there are alternative suppliers of chips in the market and we have also searched for alternate chips since October 2020 and diversified our supply channels by connecting directly with suppliers of chips to anchor supplies. We have established internal mechanism to forecast the necessary level of chip supply and adjust our inventory level more frequently. Although the semiconductor chips we purchase include components from single-source suppliers, such practice is in accordance with the industry norm since it improves operational efficiency and the validation period for switching to other chips or multiple chips is usually prolonged. As of the Latest Practicable Date, we had not experienced any disruption in the manufacture of our vehicles due to a shortage in the supply of chips or any other major components. Considering the absence of any disruption in the manufacture of our vehicles, the availability of alternate chip suppliers, and our supply reserve arrangements and understanding with our chip suppliers, we believe the recent shortage of chips would not materially and adversely affect our business operation and financial performance. However, we cannot assure you that we could continue

BUSINESS

to procure sufficient supply of chips at reasonable cost. See “Risk Factors—Risks Relating to Our Business and Industry—The global shortage in the supply of semiconductor chips may disrupt our operations and adversely affect our business, results of operations, and financial condition.”

Quality Control

Benchmarking the best-in-class practices in the industry, we have developed our own quality management system spanning the full lifecycle of a vehicle, from product design to after-sale services, covering hardware, software, and service.

For Li ONE testing and validation, we have maintained over 1,700 vehicle testing measures, including over 500 critical testing measures, to ensure high quality. As of March 31, 2020, we had performed over 8.3 million kilometers of road tests including enhanced reliability test on proving grounds and vehicle durability test on roads for general users. The tests cover road environment tests under extreme working conditions such as extreme temperatures and humidity as well as high altitudes and tests of ADAS performance. We not only resolve quality issues as they emerge, but also preemptively assess and prevent issues. We studied over 1,000 issues frequently seen in market recalls and confirmed our solutions are adequate. Before the volume production of Li ONE, we conducted special inspection and prevented 19 issues that other automakers have encountered.

Effective on November 7, 2020, we voluntarily recalled 10,469 Li ONEs produced on or before June 1, 2020 to replace, free of charge, the control arm ball joint of the front suspension of these Li ONEs in accordance with the requirements by the SAMR. Li ONEs produced after June 1, 2020 are already equipped with an upgraded version of the control arm ball joint of the front suspension. As of the date of this prospectus, we completed over 98.5% of all the replacements and are not aware of any material accidents due to any defects in the control arm ball joint of the front suspension being replaced.

VEHICLE DELIVERY

The following table sets forth our cumulative vehicle delivery data as of the end of the periods indicated.

| | <u>December</u> <u>2019</u> | <u>March</u> <u>2020</u> | <u>June</u> <u>2020</u> | <u>September</u> <u>2020</u> | <u>December</u> <u>2020</u> | <u>March</u> <u>2021</u> | <u>June</u> <u>2021</u> | <u>July</u> <u>2021</u> |
|------------------------------------|--------------------------------|-----------------------------|----------------------------|---------------------------------|--------------------------------|-----------------------------|----------------------------|----------------------------|
| Li ONE delivered ⁽¹⁾⁽²⁾ | 973 | 3,869 | 10,473 | 19,133 | 33,597 | 46,176 | 63,751 | 72,340 |

Notes:

- (1) Excludes vehicles delivered for testing and other non-sales purposes.
- (2) The Li ONEs we sold during the Track Record Period were previous generation of Li ONEs with an NEDC range of 800 kilometers prior to our release of 2021 Li ONE.

In the fourth quarter of 2019, the first, second, third, and fourth quarter of 2020, the first quarter and second quarter of 2021, a total of 973, 2,896, 6,604, 8,660, 14,464, 12,579, and 17,575 Li ONEs were delivered, respectively. We delivered 8,589 Li ONEs in July 2021.

SEASONALITY

The sales volume of passenger vehicles typically declines over January and February, particularly around the Chinese New Year, gradually climbs over the spring and summer months, and typically culminates in the last three months of the calendar year. Our limited operating history makes it difficult for us to judge the exact nature or extent of the seasonality of our business. Also, any unusually severe weather conditions in some markets may impact demand for our vehicles.

USER PRIVACY AND DATA SECURITY

During the course of sales and marketing of our vehicles, certain personal information is directly collected by us from users based on the services the users select, and mainly includes name, email address, mobile number, ID number, and other personal information relating to the usage of our vehicles. We also directly collect users' personal data, including transportation records and behavioral data for enhancing our autonomous driving technologies and infrastructures.

With our Surveying and Mapping Qualification Certificate, we accumulate certain data related to GPS and autonomous driving in compliance with relevant laws and regulations. We have obtained consents from our users to collect, store, and transmit data for the development of our autonomous driving system, such as location information, road conditions, and driving pattern. Our data privacy policy agreed by our users describes our data practices in the development of autonomous driving system, and we do not use any data for any purpose other than those specified in the data privacy policy with our users.

Aside from purchasing certain components, such as chipset and sensors, we are self-developing our autonomous driving system in a full-stack, closed-loop manner and we plan to do so in the foreseeable future. We store in-house all the data accumulated in developing autonomous driving technologies. Neither do we currently have any data sharing arrangement with external parties, nor does our business involve any cross-border data transfer. In particular, we have adopted and implemented strict internal protocols to ensure the security of map data we collect in the development of autonomous driving technologies in accordance with PRC laws. We do not provide any map data to or share such data with any foreign individuals and entities, or any foreign-invested enterprises established in China. We do not allow any unauthorized person to obtain such map data in the relevant technology tests and road tests. Pursuant to the PRC Law on Guarding State Secrets, the relevant authorities must mark state secrets on all the media that carry information involving state secrets, and if the information does not involve state secrets, it should not be marked as state secrets. When engaging in the aforementioned business, we did not see any state secret marks on the relevant

media. To the best of our knowledge, we believe that the data we collect and store, including the map data, does not give rise to any state secret concern in any material respect. Based on the foregoing, our PRC Legal Advisor is of the opinion that our practice in the use of data complies with the relevant regulations and rules relating to state secret for our existing and future data.

With the level of intelligence and connectivity of vehicles, and our highly integrated system that interacts with the users, we place strong emphasis on data security and protection. We have adopted and implemented a strict internal control system focusing on data security and personal information protection. The privacy policies with respect to the collection, use, and disclosure of user data have been posted on the websites and mobile apps that we operate, which inform the users of the purposes, methods, and scope of collecting and using their personal information. We do not use users' data for any purpose that has not been consented by the users or is not necessary for our provision of services to the users. We have implemented procedures to regulate our employees' actions in relation to user data in order to protect user privacy and data security. We also have adopted a strict access control mechanism to protect user privacy while meeting business requirements. In addition, we employ a variety of technical solutions to prevent and detect risks in user privacy and data security, such as encryption and log audit. Our internal cloud data security team as well as external data security experts constantly examine and test our data security system to ensure that any vulnerability identified is fixed immediately. Our user database can only be accessed by our designated and authorized personnel after approval, whose actions are recorded and monitored constantly by our internal cloud data security team. Without due consent and authorization from users or going through compliance procedures, we will not provide personal data to our business partners. We strictly follow the terms of authorization and the scope of usage set forth in the agreements with our users when processing and analyzing their personal data, and require all of our business partners to acknowledge and sign confidentiality agreements before they receive any user data from us. All data analyzed are encrypted and de-identified in accordance with applicable laws and regulations. If any of our business partners misuses or leaks user data provided by us or cause any damage to our users or us, we are entitled to terminate the agreements with such business partner and take protective measures, such as changing encrypted passwords and disconnecting the network, and may also pursue further legal proceedings against the business partner.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with data privacy and security laws or regulations. In the opinion of our PRC Legal Advisor, all of our major subsidiaries complied in all material aspects with relevant data privacy and security laws and regulations during the Track Record Period.

INTELLECTUAL PROPERTY

We believe that we have significant capabilities in the areas of vehicle engineering, development, and design. As a result, our success depends, at least in part, on our ability to protect our core technologies and intellectual property rights. To accomplish this, we rely on a combination of patents, patent applications, trade secrets, including employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technologies. As of March 31, 2021, we had 893 issued patents and 749 pending patent applications, which lay a solid foundation for our core proprietary technologies and the development of our next generation of EREVs and HPC BEVs. As of March 31, 2021, we had 404 registered trademarks, and 25 pending trademark applications in China. As of March 31, 2021, we also held or otherwise had the legal right to use 46 registered copyrights for software or work of art and 64 registered domain names, including *lixiang.com*. We intend to continue to file additional patent applications with respect to our technologies.

We protect our core technologies and proprietary rights vigorously. Mr. Wang Kai, our chief technology officer, is responsible for providing overall leadership in advanced technology research and development, including in the development and protection of our proprietary software and hardware. Led by Mr. Wang Kai, we have implemented an internal protocol to protect our proprietary rights. Our intellectual property rights protection team consists of our employees in various departments, who are responsible for coordinating intellectual property mining and strategy, timely registration of intellectual property, and other intellectual property protection matters. We enter into a nondisclosure agreement and a noncompetition agreement with each of our employees to protect our intellectual properties, business secrets, and know-how. We and our employees explicitly agree that any intellectual property developed during the course of employment belongs to us, and such non-disclosure obligation survives termination of employment. We reward employees who have made outstanding intellectual property contribution to motivate employees to develop more intellectual properties. In addition, all agreements between us and our business partners provide for our ownership of our intellectual property to prevent and protect our intellectual property from infringement. We closely monitor any attempts by others to register the same or similar intellectual property as ours and raise objections or take other measures to response in time, to protect our intellectual properties from misuse by others and protect ourselves from infringement of the intellectual property rights of third parties.

During the Track Record Period, our measures to protect our intellectual property had been effective, and we did not find any material breaches of our intellectual property rights. For various risk relating to our intellectual property rights, see “Risk Factors—Risks Relating to Our Business and Industry—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.”

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COMPETITION

The China automotive market is highly competitive and we expect that it will become even more competitive in the future. We believe that our vehicles compete with premium vehicles regardless of powertrain technologies. We believe the primary competitive factors in our markets are: technological innovation, product quality and safety, product pricing, sales efficiency, manufacturing efficiency, branding, and design and styling. We believe that positive factors pertaining to our competitive position include precise consumer targeting and product defining capabilities, innovative designs and technologies, manufacturing cost management, distribution cost management, and general management efficiency as a company. See “Risk Factors—Risks Relating to Our Business and Industry—We may not be successful in the highly competitive China automotive market.” for risks related to competition in our industry.

CUSTOMERS AND SUPPLIERS

During the Track Record Period, our customers primarily include individual vehicle purchasers. We have a broad base of customers, and we do not believe that we have customer concentration risks. Our top five customers accounted for 1% of our total revenues for each of the years ended December 31, 2019 and 2020, respectively. Our top five suppliers accounted for 30%, 16%, and 32% of our purchases for each of the years ended December 31, 2018, 2019, and 2020, respectively.

As of the Latest Practicable Date, based on publicly available information, none of our directors or their close associates (as defined in the Hong Kong Listing Rules), our controlling shareholder, held a 5% or more shareholding interest in our top five suppliers.

EMPLOYEES

As of December 31, 2018, 2019, and 2020 and March 31, 2021 we had 1,593, 2,628, 4,181, and 4,900 employees, respectively. All of our employees are based in China.

The following table sets forth the number of our employees by function as of March 31, 2021.

| Function | Number of Employees | Percentage |
|------------------------------------|--------------------------------|-------------------|
| Research and Development | 1,633 | 33.3% |
| Production | 841 | 17.2% |
| Sales and Marketing | 2,166 | 44.2% |
| General and Administrative Support | 260 | 5.3% |
| Total | 4,900 | 100.0% |

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Our success depends on our ability to attract, retain, and motivate qualified employees. We offer employees competitive salaries, performance-based cash bonuses and equity-based incentives, comprehensive training and development programs, and other fringe benefits and incentives. We believe that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes or work stoppages. No collective bargaining agreement has been put in place.

As required by regulations in China, we participate in various government statutory employee benefit plans, including social insurance funds, namely, medical insurance, maternity insurance, workplace injury insurance, unemployment insurance, and pension benefits, as well as a housing provident fund. We are required under PRC law to contribute to employee benefit plans at specified percentages of the salaries, bonuses, and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

We enter into standard labor contracts with our employees. We also enter into standard confidentiality agreements with all of our employees.

As of the Latest Practicable Date, we do not have any early sale arrangement of our vehicles to our employees.

INSURANCE

We maintain various insurance policies to safeguard against risks and unexpected events. We maintain property insurance, machinery breakdown insurance, public liability insurance, commercial general liability insurance, employer's liability insurance, driver's liability insurance, and inland transit insurance, which we believe is in line with those of other companies in the same industry of similar size in China. In addition to providing social security insurance for our employees as required by PRC law, we also provide supplemental commercial medical insurance for our employees. We do not maintain business interruption insurance or key-man insurance. We believe that our insurance coverage is adequate to cover our key assets, facilities, and liabilities.

FACILITIES AND PROPERTIES

We are headquartered in Beijing, China. Currently, we own land use rights with respect to one parcel of land in Changzhou, Jiangsu Province, China of approximately 185,000 square meters and the ownership with respect to the plants thereon for the term ending on September 11, 2068 and January 23, 2069, respectively.

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We have also leased a number of our facilities. The relevant lease agreements expire between 2021 and 2035. The following table sets forth the location, approximate size, primary use, and lease term of our major leased facilities as of March 31, 2021:

| Location | Approximate Size (Building) in Square Meters | Primary Use | Lease Term | Expire Date |
|---|--|---|----------------------------------|---------------------------------|
| Beijing | 59,954 | Headquarters, office, research and development | 15 years | August 2035 |
| Beijing | 4,332 | Office | 2 years to 5 years | August 2021 to January 2023 |
| Beijing, Chengdu, Guangzhou, Shanghai, Wuhan, Hangzhou, Shenzhen, Chongqing, Haikou, Jinan, Xi'an, Guiyang, Harbin, Hefei, Nanchang, Nanning, Ningbo, Qingdao, Xiamen, Shenyang, Shijiazhuang, Suzhou, Tianjin, Wenzhou, Changsha, Zhengzhou, Dalian, Dongguan, Foshan, Fuzhou, Hohhot, Huizhou, Kunming, Lanzhou, Linyi, Nanjing, Nantong, Quanzhou, Taizhou, Taiyuan, Tangshan, Urumqi, Weifang, Wuxi, Xining, Yantai, Yinchuan, Yiwu, Zhongshan, Zibo, Anshan, Changchun, Changzhou, Dongying, Ganzhou, Longyan, Nanchong, Qinhuangdao, Shantou, and Xiangyang | 98,828 | Retail stores, delivery centers, and servicing centers | 6 months to 8 years | September 2024 to December 2028 |
| Changzhou, Chongqing, and Beijing | 202,573 | Vehicle manufacturing, engineering, and design services | 3 years and 2 months to 15 years | December 2022 to August 2032 |

We have a contractual option to purchase the leased property for the manufacturing facility in Changzhou at the construction cost before the expiration date of the lease or re-negotiate the lease if we fail to purchase the property. For various risk relating to our manufacturing facility in Changzhou, see “Risk Factors—Risks Relating to Our Business and Industry—The expansion of our existing Changzhou manufacturing facility may be subject to delays, disruptions, cost overruns, or may not produce expected benefits.” Our PRC Legal Advisor advised us that there is no material legal impediment to renewing the lease agreements as set out above.

HEALTH, WORK SAFETY, SOCIAL, AND ENVIRONMENTAL MATTERS

We are subject to numerous environmental, health and safety laws and regulations, including those governing our manufacturing and engineering facilities. For a discussion on PRC laws and regulations on environmental protection and work safety, see “Regulations—Regulations on Environmental Protection and Work Safety.” During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other penalties due to non-compliance with health, work safety, social, or environmental regulations.

Environmental Protection

We recognize the importance of contributing to sustainable development for the benefit of our society and environment. With this in mind, we strive to minimize the impact of our operations on the environment and promote sustainability and environmental awareness at all levels of our organization. As a responsible citizen enterprise, we recognize our role in combating the global challenge of climate change and introduce carbon mitigating measures during our operations. We encourage our employees to pursue paperless office and will continue to explore ways to further improve energy efficiency. We employ internal environmental protection and procedures to help minimize the use of hazardous materials, energy, and other natural resources, and to minimize the generation of waste. In addition, we implement various environmental protection measures to manage our construction and manufacturing processes, including installation of wastewater treatment plant, dust and smoke purification system, and water curtain paint booth filtration system to appropriately dispose of manufacturing waste. We also inform suppliers of our environmental protection requirements to give guidance to our supply based on the standards and practices that we expect. We always select the contractors with the corresponding qualification environment certificate and the agreements between us and our contractors include certain clauses relating to environmental protection, including abiding by the relevant regulations of the company in environmental management and timely disposal of construction waste.

Our continued development and delivery of high-quality automobiles are and will be subject to risks with respect to non-compliance with environmental regulations. Additionally, we cannot guarantee our suppliers’ compliance with ethical business practices and the environmental responsibilities. A lack of demonstrated compliance could lead us to seek alternative suppliers, which could increase our costs and results in delayed delivery of our vehicles, supply shortages, or other disruptions of our operations. Any of the foregoing could

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materially and adversely affect our business, financial condition, and results of operations. The identification, assessment, and management of environmental-related risks are mainly carried out through simultaneous assessment of environmental impact of construction projects, safety risk assessment of environmental protection facilities, and routine inspection and environmental emergency plan. We set an environmental target for our Changzhou manufacturing facility with the aspiration to have zero environmental issue with indicators including pollutant discharge standards for waste water, waste gas, and waste disposals.

Li ONE meets the emission standard of “Stage VI-b” in China, which is stricter than the emission standards of Euro 6 and US SULEV. While BEVs do not typically generate any emission, Li ONE, as an EREV, still generates minimal level of emission. On the contrary, ICE vehicles, including those meeting the strict Stage VI-b emission standard in China, typically generate higher emission than BEVs and EREV in their lifecycle. The emission standards for vehicles produced in different areas across the world are varied, and the following comparison table sets forth the emission standards for selected peer BEVs and ICE vehicles and the respective maximum level of pollutants allowed under each standard.

| Model | Major Emission Standards and Representative Vehicles | | | | | | | | | | | |
|----------------------------|--|-------------------|---------|-----|------|-----|--------|-----|----------|------|------------------|----------------------|
| | Energy type | Emission standard | CO | THC | NMHC | Nox | HC+Nox | PM | NMOG+Nox | HCHO | N ₂ O | PN/km |
| | | | (mg/km) | | | | | | | | | |
| Li ONE | EREV | China Stage VI-b | 500 | 50 | 35 | 35 | N/A | 3 | N/A | N/A | 3 | 6.0*10 ¹¹ |
| SERES SF5 | EREV | China Stage VI-b | 500 | 50 | 35 | 35 | N/A | 3 | N/A | N/A | 3 | 6.0*10 ¹¹ |
| Voyah Free | EREV | China Stage VI-b | 500 | 50 | 35 | 35 | N/A | 3 | N/A | N/A | 3 | 6.0*10 ¹¹ |
| Tesla Model X | BEV | US ZEV | 0 | N/A | N/A | N/A | N/A | 0 | 0 | 0 | N/A | N/A |
| NIO ES8 | BEV | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| BMW X5 30i | ICE | Euro 4 | 1,000 | 100 | N/A | 80 | N/A | N/A | N/A | N/A | N/A | N/A |
| Mercedes-Benz GLE350 | ICE | Euro 6 | 1,000 | 100 | 68 | 60 | N/A | 5 | N/A | N/A | N/A | N/A |
| Toyota Highlander 2.0T | ICE | US SULEV | 620 | N/A | N/A | N/A | N/A | 62 | 186 | 2.48 | N/A | N/A |
| Volkswagen Teramont 380TSI | ICE | Euro 5 | 1,000 | 100 | 68 | 60 | N/A | 5 | N/A | N/A | N/A | N/A |

Source: CIC

Corporate Social Responsibility

We believe our continued growth rests on integrating social values into our business, starting with operating with integrity in all we do and extending to serving the community at large in China. We have been committed to sustainable corporate responsibility projects since the inception of our operations.

Occupational Health and Safety

We are subject to various PRC laws and regulations in respect of occupational health and safety. We are committed to complying with PRC regulatory requirements, preventing and reducing hazards and risks associated with our operation, and ensuring the health and safety of our employees and surrounding communities. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and with proper legal consultation, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. We have adopted and maintained a series of policies and measures to maintain a safe environment for our employees, including, among others, safety incident management policy, occupational hazard monitoring and management policy. In addition, we have adopted relevant measures to ensure the health of our employees and hygiene of our work environment. We are endeavored to provide a safe work environment in light of the COVID-19 pandemic, including procurement of epidemic prevention materials and release of work-from-home plan and work resumption plan.

COVID-19 Relief Efforts

We have established various corporate social responsibility initiatives to comprehensively give back to the communities and to create value for the society. In the fight against the COVID-19 pandemic in China, we have done our utmost to help people in Wuhan, Hubei Province and throughout China during the most difficult times. In January 2020, we donated RMB2,000,000 to Wuhan Charity Federation. Our sales and servicing team in Wuhan, Hubei Province actively participated in the campaign to pick up frontline medical staff using our Li ONEs from and to several hospitals to contribute to the fight against the COVID-19 pandemic. Our outstanding contribution to the COVID-19 prevention and control were recognized by Wuhan Charity Federation in December 2020. In January 2021, we also donated RMB1,000,000 to red-cross society of Shijiazhuang, Hebei Province, for its prevention and control of the COVID-19 pandemic.

Relief Efforts for the Floods in Henan Province

In July 2021, certain areas in Henan Province, China was hit by a heavy rainfall which was extremely rare and experienced widespread flooding. To support the disaster relief efforts in Henan Province, we donated RMB10,000,000 to the China Charity Federation of Henan Province. We also coordinated for towing resources nearby and offered free maintenance and inspection services for the Li ONEs affected in the floods.

LEGAL PROCEEDINGS AND COMPLIANCE**Legal Proceedings**

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of our business. We are currently not a party to any material legal or administrative proceedings and we were not involved in any material legal proceedings and litigations during the Track Record Period and up to the Latest Practicable Date.

Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial costs and diversion of our resources, including our management's time and attention. For potential impact of legal or administrative proceedings on us, see "Risk Factors—Risks Relating to Our Business and Industry—We may be subject to legal proceedings in the ordinary course of our business. If the outcomes of these proceedings are adverse to us, it could have a material adverse effect on our business, results of operations, and financial condition." and "Risk Factors—Risks Relating to Our Business and Industry—We are or may be subject to risks associated with strategic alliances or acquisitions."

Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material non-compliance incidents that have led to fines, enforcement actions, or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition, and results of operations.

RISK MANAGEMENT AND INTERNAL CONTROL

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as financial reporting, information system, internal control, human resources, and investment management.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management. We have various procedures in place to implement accounting policies, and our financial department reviews our management accounts based on such procedures.

Information System Risk Management

We have implemented relevant internal procedures and controls to ensure that user data is protected, and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data. We provide regular training to our information technology team and discuss any issues or necessary updates.

Human Resources Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. Through these trainings, we ensure that our staff's skill sets remain up-to-date and enable them to discover and meet our users' needs. We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanism, negligence, and corruption.

We have in place an anti-bribery and anti-corruption policy to safeguard against any corruption within our Company. The policy explains potential bribery and corruption conducts and our anti-bribery and anti-corruption measures. Improper payments prohibited by the policy include bribes, kickbacks, excessive gifts or facilitation payment, or any other payment made or offered to obtain an undue business advantage. We keep accurate books and records that reflect the substance of transactions and asset dispositions in reasonable detail. We specifically require that the employees submit all reimbursement requests related to entertainment related fee or gifts presented to third parties on behalf of the company in accordance with our expense expenditure policy, and specifically record the reason for the expenditure. These expenses should be recorded in the financial system and marked as promotional gift expenses or entertainment expenses as appropriate. Any entertainment expenses exceeding RMB800 per person and any expenses incurred for entertainment not related to business meetings must be approved in advance by our compliance officer. We will not approve the transactions or payment if the books and records do not reflect the substance of transactions. We also require that the payment must not be used for any purpose other than those described in the supporting document. Misleading or incomplete entries in our books and records are not acceptable. The payment made in violation of the expense approval process, cash management system, or reimbursement system is strictly prohibited. Our compliance department is responsible for investigating the reported incidents and taking appropriate measures as necessary. We conduct background check procedures before hiring any third party and ensure that the hiring procedure is implemented fully in accordance with the anti-bribery and anti-corruption policies. We also have regular trainings for employees regarding anti-bribery and anti-corruption policies to facilitate better implementation.

Investment Risk Management

We invest in or acquire businesses that are complementary to our business, such as businesses that can expand the services we offer and strengthen our research and development capabilities. In general, we intend to hold our investments for the long term. In order to protect our interests as shareholders and control the potential risks associated with our investments, we generally request our investee companies to grant us customary investor protective rights.

In our investment projects, our capital market department sources investment projects in accordance with our investment strategy and preliminarily assesses the risks and potential of the investment projects. We employ different levels of approval and due diligence mechanisms corresponding to the specific circumstances involved in an investment project. Our finance and

legal departments cooperate with capital market department on deal evaluation, structuring, analysis, communication, execution, risk control, reporting, and post-investment risk management. In addition, our capital market department monitors the deal performance on a regular basis. Any material factors will be timely reported to our investment committee, which consists of several members from our senior management team who have extensive experiences in the industry, for further decision.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing, and mitigating risks involved in our business operations. The audit committee consists of three members, namely Hongqiang Zhao, Xing Xiao, and Zhenyu Jiang. Hongqiang Zhao, Xing Xiao, and Zhenyu Jiang are independent directors. For the professional qualifications and experiences of the members of our audit committee, see “Directors and Senior Management—Directors.”

We also maintain an internal audit department that is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the board of directors if necessary.

Internal Control

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system.

We have engaged an internal control consultant to review the effectiveness of our internal controls associated with our business processes, or the Internal Control Review, identify deficiencies and improvement opportunities, provide recommendations on remedial actions, and review the implementation status of these remedial actions. The Internal Control Review covered areas such as entity level controls, revenue and receivables, inventory management, procurement to pay, production management, fixed assets management, treasury management, human resources, financial reporting, tax management, information technology, research and development expense management, and insurance.

Prior to our listing on the Nasdaq Global Select Market in July 2020, we had been a private company with insufficient accounting personnel and other resources with which to address our internal control. Our management has not completed an assessment of the effectiveness of our internal control and procedures over financial reporting and our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting as of and for the year ended December 31, 2020. In connection

with the audits of our consolidated financial statements as of and for the years ended December 31, 2018 and 2019, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting as of December 31, 2019. As defined in the standards established by the PCAOB, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company’s annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The material weakness identified relates to our lack of sufficient financial reporting and accounting personnel with appropriate professional qualification and knowledge of U.S. GAAP to handle non-recurring and complex transactions and review disclosures in our consolidated financial statements in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC.

We have implemented a number of measures to address the material weakness, including: (i) we have hired additional qualified financial and accounting staff with working experience with U.S. GAAP and SEC reporting requirements; (ii) we have established clear roles and responsibilities for accounting and financial reporting staff to address complex accounting and financial reporting issues; (iii) we have clarified reporting requirements and established effective oversight to address complex and non-recurring transactions and related accounting issues; (iv) we have developed and implemented a comprehensive and effective period-end closing process, especially for complex and non-recurring transactions to ensure financial statements and related disclosures are in compliance with U.S. GAAP and SEC reporting requirements; (v) we have established an internal audit team to enhance internal controls and assess the design and effectiveness of our internal controls; and (vi) we are conducting regular U.S. GAAP accounting and financial reporting training programs for accounting and financial reporting personnel. We also intend to hire additional resources to strengthen the financial reporting function. We will continue to implement measures to remediate the material weakness.

Although the aforementioned remediation measures were implemented, these measures will require validation and testing of the operating effectiveness of internal controls over a sustained period of financial reporting cycles. As a result, the previously identified material weakness still existed as of December 31, 2020.

In anticipation of the Listing, we have engaged an internal control consultant to conduct the Internal Control Review and a follow-up review of the effectiveness of our internal controls associated with our business processes from February to April 2021. The Internal Control Review and the follow-up review performed by the internal control consultant constituted a Long Form Report engagement pursuant to the relevant technical bullets in AATB1 issued by the Hong Kong Institute of Certified Public Accountants. The scope of the Internal Control Review was agreed among our Directors, the Joint Sponsors, and the internal control consultant. The selected areas of the Internal Control Review included entity-level controls, which covered the controls relating to the financial reporting competencies, and business process controls, which covered the financial reporting process. As a result of the Internal

Control Review, we identified certain areas that require improvements. We have subsequently taken remedial measures in response to the findings identified and recommendations provided by our internal control consultant. The internal control consultant also performed a follow-up review on our system of internal controls in April 2021, with regard to the remedial actions taken by us to address the findings of the Internal Control Review. Having completed these follow-up procedures, the internal control consultant did not identify any material deficiencies in our internal control system. The internal control consultant did not have any further recommendations in respect of the Internal Control Review.

As of the Latest Practicable Date, there were no material outstanding issues relating to our internal control. Based on the remediation actions performed by the Directors, our Directors are of the view that the enhanced internal control measures are adequate and effective. In order to assess the remediation actions taken by the Company, the Joint Sponsors have conducted relevant due diligence work, including, among others, (i) discussing with the management of the Company to understand the remediation actions taken by the Company to address the deficiencies identified by the internal control consultant; (ii) obtaining and reviewing the internal control report issued by the internal control consultant; (iii) discussing with the internal control consultant to understand the scope of the internal control review, the nature of any findings relating to the financial reporting of the Company, and the enhanced internal control measures taken by the Company to rectify the material deficiencies identified in the internal control review; (iv) discussing with the Reporting Accountant to understand the nature of the material weakness under the PCAOB auditing standards; and (v) obtaining and reviewing the supporting documents in relation to the enhanced measures, including, but not limited to, a list of relevant employees in the Company's financial and accounting departments (including their name, experience, qualifications, and roles and responsibilities in the Company), the Company's financial reporting personnel's training records in relation to accounting and financial reporting, and the relevant internal policies and procedures adopted by the Company. Although the Joint Sponsors are not internal control experts, having considered the work done by the Company and the internal control consultant and the relevant due diligence conducted by the Joint Sponsors, as well as the difference between "material deficiencies" under AATB1 and "material weakness" under the PCAOB auditing standards, the Joint Sponsors believe that the Directors' view that the measures adopted for enhancing the Company's internal control over financial reporting are adequate and effective is reasonable.

LICENSES AND PERMITS

Our PRC Legal Advisor has advised that as of the Latest Practicable Date, we had obtained all requisite licenses, permits, approvals, and certificates from the relevant government authorities that are material for the business operations of our major subsidiaries and major Consolidated Affiliated Entities. Chongqing Lixiang Automobile Co., Ltd. is listed in the Motor Vehicle Manufactures and Products (Batch No. 326) issued by the MIIT on December 6, 2019. The following table sets forth details of the material licenses and permits

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obtained by our major subsidiaries and major Consolidated Affiliated Entities. We renew our permits and licenses from time to time to comply with the relevant laws and regulations. Our PRC Legal Advisor advised us that there is no material legal impediment to renewing all the following permits or licenses.

| License/Permit | Holder | Issuing Authority | Grant Dates | Expiration Date |
|---|---|--|-------------------|-------------------|
| Surveying and Mapping Qualification Certificate (測繪資質證書) | Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司) | Beijing Municipal Commission of Planning and Natural Resources (北京市規劃和自然資源委員會) | December 10, 2019 | December 31, 2021 |
| Radio Transmission Equipment Type Approval Certificate (無線電發射設備型號核准證) | Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司) | PRC Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) | July 29, 2020 | July 28, 2025 |
| PRC Customs Declaration Enterprise Registration Certificate (中華人民共和國海關報關單位註冊登記證書) | Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司) | Beijing Customs District of PRC General Administration Customs (中華人民共和國北京海關) | March 5, 2018 | / |
| PRC Customs Declaration Enterprise Registration Certificate (中華人民共和國海關報關單位註冊登記證書) | Jiangsu Xindian Interactive Sales and Services Co., Ltd. (江蘇心電互動汽車銷售服務有限公司) | Wujin Office of Changzhou Customs (常州海關駐武進辦事處) | December 20, 2017 | / |
| PRC Customs Declaration Enterprise Registration Certificate (中華人民共和國海關報關單位註冊登記證書) | Jiangsu Chehejia Automobile Co., Ltd. (江蘇車和家汽車有限公司) | Wujin Office of Changzhou Customs (常州海關駐武進辦事處) | May 15, 2018 | / |
| License for Production and Operation of Radio and TV Programs (廣播電視節目製作經營許可證) | Beijing Chelixing Information Technology Co., Ltd. (北京車勵行信息技術有限公司) | Beijing Municipal Radio and Television Bureau (北京市廣播電視局) | January 12, 2021 | January 12, 2023 |
| Internet Culture Operating License (網絡文化經營許可證) | Beijing Chelixing Information Technology Co., Ltd. (北京車勵行信息技術有限公司) | Beijing Municipal Bureau of Culture and Tourism (北京市文化和旅遊局) | January 15, 2021 | December 10, 2022 |
| Value-Added Telecommunication Business Operation License (增值電信業務經營許可證) | Beijing Chelixing Information Technology Co., Ltd. (北京車勵行信息技術有限公司) | Beijing Communications Administration Bureau (北京市通信管理局) | May 29, 2019 | May 29, 2024 |

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| License/Permit | Holder | Issuing Authority | Grant Dates | Expiration Date |
|---|---|--|--------------------|-------------------|
| Value-Added Telecommunication Business Operation License (增值電信業務經營許可證) | Beijing Chelixing Information Technology Co., Ltd. (北京車勵行信息技術有限公司) | PRC Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) | December 3, 2019 | December 3, 2024 |
| Pollutant Discharge License (排污許可證) | Chongqing Lixiang Automobile Co., Ltd. (重慶理想汽車有限公司) | Changzhou Ecology and Environment Bureau (常州生態環境局) | December 23, 2019 | December 22, 2022 |
| PRC Customs Declaration Enterprise Registration Certificate (中華人民共和國海關報關單位註冊登記證書) | Chongqing Lixiang Automobile Co., Ltd. (重慶理想汽車有限公司) | Cuntan Port Office of PRC Customs (中華人民共和國寸灘水港海關) | September 17, 2020 | / |

AWARDS AND RECOGNITION

During the Track Record Period, we have received recognition for the quality and popularity of our products and services. Some of the significant awards and recognition that we or our senior management have received are set forth below.

| Award/Recognition | Award Year | Awarding Institution/Authority |
|---|------------|--------------------------------|
| 50 Smartest Companies in China (中國50家聰明公司) | 2020 | MIT Technology Review |
| Top 50 – Most Valuable China Concept Stock (中概股最具投資價值獎50強) | 2020 | Caijing & Tiger Brokers |
| Global Innovativeness Review – New Energy Vehicle (全球創新評選–新能源汽車) | 2020 | TMT Post |
| Innovator of the Year (年度創新產品獎) | 2020 | NetEase & ECI Awards |
| Future Star of the 21st Century – Fast-growing Emerging Enterprise (21未來之星–最具成長性新興企業) | 2018 | iCEO |
| Unicorn of the Automobile Transportation Industry (汽車交通行業獨角獸) | 2018 | The Founder |
| Top 50 – Most Valuable Enterprise in China (中國最具投資價值企業50強) | 2018 | Zero2IPO Group |

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PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (the “**Negative List**”) and the Catalog of Industries for Encouraging Foreign Investment (the “**Encouraging Catalog**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divides industries into three categories in terms of foreign investment, namely, “encouraged”, “restricted” and “prohibited.” Industries not listed under the Negative List and the Encouraging Catalog are generally deemed as falling into a fourth category “permitted.” The currently effective Negative List is the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (the “**2020 Negative List**”), which became effective on July 23, 2020. As advised by our PRC Legal Advisor, a summary of our businesses/operations that are subject to foreign investment restriction or prohibition in accordance with the 2020 Negative List and other applicable PRC laws is set out below (the “**Relevant Businesses**”):

| Categories | Our business/operations |
|-----------------------|--|
| “Restricted” | |
| Vehicle manufacturing | <p>According to the 2020 Negative List, the shareholding percentage of foreign investors in companies engaged in whole vehicle manufacturing, other than the manufacturing of special purpose vehicles, new energy vehicles (“NEVs”) and commercial vehicles, shall not exceed 50%. The 2020 Negative List also provides that the said restriction on foreign ownership in whole vehicle manufacturing will be fully lifted in 2022.</p> <p>The Company manufactures its vehicles in the PRC in-house through its Consolidated Affiliated Entity, Chongqing Lixiang, whose equity interest is held as to 50% by Beijing Xingluwuyou Automobile Technology Co., Ltd. (an indirect wholly-owned subsidiary of our Company) and as to 50% by Beijing CHJ, one of the VIEs. Pursuant to the Administrative Rules on the Admission of New Energy Vehicle Manufacturers and Products (《新能源汽车生产企业及产品准入管理规定》) (the “NEV Manufacturing Provisions”) issued by the MIIT on January 6, 2017 and amended on July 24, 2020 and other related PRC laws, a company that manufactures internal combustion engine vehicles (“ICE vehicles”) is eligible to manufacture NEVs, provided that it meets certain conditions set forth in the NEV Manufacturing Provisions. Chongqing Lixiang is qualified to manufacture ICE vehicles in the PRC, as it has been listed in the catalog of Motor Vehicle Manufacturers and Products issued by the MIIT. Chongqing Lixiang is also qualified to manufacture NEVs in the PRC pursuant to the NEV Manufacturing Provisions and other applicable PRC laws.</p> |

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| Categories | Our business/operations |
|--|--|
| | <p>As Chongqing Lixiang's ability to manufacture ICE vehicles is a precondition for its qualification to manufacture NEVs, Chongqing Lixiang is considered as an ICE vehicles manufacturer under the applicable PRC laws and regulations. The 2020 Negative List therefore applies to restrict foreign ownership in Chongqing Lixiang to a maximum of 50%.</p> |
| Value-added telecommunication services | <p>According to the 2020 Negative List, provision of commercial internet information services is a "restricted" business and the shareholding percentage of a foreign investor in companies engaged in commercial internet information services shall not exceed 50%. Article 10 of the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "FITE Regulations") further provides that a major foreign investor that invests in a value-added telecom business in the PRC must possess prior experience in, and a proven track record of good performance of, operating value-added telecom businesses overseas (the "Qualification Requirements"). Foreign investors that meet these requirements must obtain approvals from the MIIT which retain discretion in granting such approvals.</p> <p>Beijing CLX, a Consolidated Affiliated Entity of the Company and a wholly-owned subsidiary of Beijing CHJ, one of the VIEs, operates the official website and the Li Auto App of the Company, through which the Company provides certain paid membership and other paid premium services to the owners of the vehicles manufactured by the Company. The said paid services constitute commercial value-added telecom business under the applicable PRC laws and thus a value-added telecommunication business operation license (增值電信業務經營許可證) (the "ICP License") is required. The offer of paid membership and other paid premium services is conducted through and embedded in the Company's official website and the Li Auto App and therefore is inseparable from the operation of the website and the App.</p> |

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| Categories | Our business/operations |
|---|--|
| “Prohibited” | |
| On-ground mobile surveying | <p>Research and development in vehicle-related technologies is one of the Group’s core business activities. The Group’s research in autonomous driving requires a Surveying and Mapping Qualification Certificate (測繪資質證書), Category B (geographic information system engineering), which covers, among other things, on-ground mobile surveying. According to the 2020 Negative List, foreign investment in companies carrying out, among other things, on-ground mobile surveying, is prohibited.</p> <p>To comply with PRC laws and regulations, our Company conducts its research and development in autonomous driving through one of the VIEs, Beijing CHJ, which holds a Surveying and Mapping Qualification Certificate, Category B.</p> <p>While research and development activities of autonomous driving system are not strictly subject to foreign investment restrictions, it is not possible for us to separate research and development work involving on-ground mobile surveying in autonomous driving from other research and development activities which are also conducted by Beijing CHJ. The research and development in autonomous driving necessarily depends on information, technologies, intellectual property rights and human resources and knowhows from the research and development in the our car models and other technologies. We also organise our research and development staff and equipment and facilities as well as relevant intellectual property rights and collaboration contracts under Beijing CHJ. Beijing CHJ operates our research and development centre which works as one unit and its sub-functions or individual research projects are inseparable from each other.</p> |
| Radio and television production and operation | <p>Under the 2020 Negative List, radio and television program production is “prohibited” business for which foreign investment is not permitted.</p> <p>Beijing CLX creates and publishes video contents through the Company’s official website, the Li Auto App and its WeChat mini program (微信小程序) for marketing and promotion purposes. The production of video contents constitutes radio and television production and operation, under applicable laws and regulations of China. Therefore, Beijing CLX needs to hold, and has obtained a License for Production and Operation of Radio and TV Programs.</p> |

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| Categories | Our business/operations |
|---|--|
| Operation of commercial internet culture activities | <p>Under the 2020 Negative List, operation of commercial internet culture activities is “prohibited” business for which foreign investment is not permitted.</p> <p>Beijing CLX creates video contents (requiring a License for Production and Operation of Radio and TV Programs discussed above) and publishes such video contents on the Company’s official website, Li Auto App and WeChat mini program. To have the abovesaid video contents published on the Company’s official website and the Li Auto App, the Company is required to obtain the Internet Culture Operating License. Beijing CLX, being the operator of the Company’s official website and the Li Auto App, has obtained the Internet Culture Operating License.</p> <p>As the video creation work is naturally done together with the publication of the video contents, and the Internet Culture Operating License is attached to the Company’s official website and the web address of the Li Auto App, the creation and publication of video content is inseparable from each other and from the operation of the Company’s official website and the Li Auto App. Further, as set out above, the offer of paid membership and other paid premium services is conducted through and embedded in the Company’s official website and the Li Auto App and therefore is inseparable from the operation of the website and the App. Beijing CLX, being the entity licensed with the ICP License, the License for Production and Operation of Radio and TV Programs and the Internet Culture Operating License, carries out these said workstreams.</p> |

NEV manufacturing qualification regime in the PRC

To establish a new pure electric passenger vehicle enterprise in the PRC, the applicant would need to meet the following conditions:

- (a) complete the filing regarding the investment project of new pure electric passenger vehicle production enterprises with the NDRC at provincial level in accordance with the Provisions on Administration of Investment in Automotive Industry (《汽車產業投資管理規定》) (the “**Investment Provisions**”) promulgated by the NDRC on December 10, 2018 and effective on January 10, 2019; and
- (b) obtain the access qualification as a NEV manufacturer under the NEV Manufacturing Provisions and other related PRC laws and regulations, which is under the supervision of the MIIT.

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Access qualification regarding the investment project

According to the Investment Provisions, if a manufacturer intends to undertake a new pure electric passenger vehicle investment project, it would need to complete the filing at the provincial NDRC where the investment project is located, subject to certain conditions set out in the Investment Provisions. Such qualification conditions include a range of requirements in respect of the province where the investment project is located, the newly-built pure electric vehicle enterprise, and the shareholders of the newly-built pure electric vehicle enterprise. The key requirements are as summarised below:

- (a) Requirements for the province in which the investment project is located: The Investment Provisions require that (i) the utilization rate of automobile production capacity in the province in the last two years was higher than the national industry average of the same product category; and (ii) the existing investment projects of newly-built independent pure electric vehicle enterprises of the same product category have been completed and the annual output has reached the construction scale.
- (b) Requirements on the shareholders of the newly-built pure electric passenger vehicle production enterprise: The Investment Provisions require the said shareholders to have strong control over key components and possess intellectual property rights and production capabilities for key components such as vehicle control systems, drive motors, and vehicle power batteries, and also set out a range of specific qualitative and quantitative requirements in respect of the main shareholders.
- (c) Requirements on the size of the investment project: The production capacity for pure electric passenger vehicles should be no less than 100,000, and for pure electric commercial vehicles should be no less than 5,000.
- (d) Requirements on the newly built pure electric passenger vehicle production enterprise: The Investment Provisions set out a range of specific qualitative and quantitative requirements in terms of research and development capabilities, possession of key intellectual property rights of the core technology of pure electric vehicles and after-sales services and warranty.

According to the Notice of the Provincial Development and Reform Commission on Effectively Strengthening the Supervision and Management and Risk Prevention and Control of Investment Projects in the Automobile Industry (《省發改委關於切實加強汽車產業投資項目監督管理和風險防控的通知》) issued by the NDRC at Jiangsu provincial level on February 9, 2021, Jiangsu Province does not meet the requirements set out in the Investment Provisions. Therefore, it would be impractical for our Company to complete the filing for the investment projects of new pure electric passenger vehicle production enterprises in Jiangsu Province (where our main production facilities are located). In light of this, we do not have immediate plan to apply for such access qualification in Jiangsu Province and have not yet established the

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production capabilities for the key components required under (b) above. However, should we decide to construct such production capabilities, we would be able to meet the requirement within approximately 12 months. We otherwise meet all other requirements discussed in (c) to (d) above.

Access qualification as a NEV manufacturer

The access standards are mainly specified in the NEV Manufacturing Provisions, including but not limited to:

- (a) The applicant is (i) a road motor vehicle manufacturing enterprise that has obtained the road motor vehicle production enterprise access, or (ii) a new vehicle manufacturing enterprise that has completed the investment project procedures in accordance with the relevant national investment management regulations.
- (b) The applicant has the production capacity, product production consistency guarantee capacity, after-sales service and product safety guarantee capacity that are necessary for manufacturing new energy vehicles and meets the relevant requirements set out in the New Energy Vehicle Manufacturers Access Review Requirements (《新能源汽车生产企业准入审查要求》).
- (c) The applicant complies with the access administration rules in connection with conventional car manufacturers of same product category.

The Company manufactures its vehicles in the PRC in-house through Chongqing Lixiang. Chongqing Lixiang is listed in the catalogue of Motor Vehicle Manufacturers and Products (Batch #326) issued by the MIIT on December 6, 2019 and is therefore qualified to manufacture NEVs in the manner described in (a)(i) above.

NEV manufacturing enterprises under the regime discussed under (a)(ii) above are not subject to any foreign ownership restrictions under the 2020 Negative List. However, as discussed above, it would be impractical for us to complete the filing for the investment projects of new pure electric passenger vehicle production enterprises in Jiangsu Province. We otherwise meet all other requirements discussed in (b) and (c) above.

On the basis of the above, we are of the view that the Contractual Arrangements are narrowly tailored because it is currently not feasible for us to apply for the filing in Jiangsu Province (where our main production facilities are located) for investment projects of new pure electric passenger vehicle production enterprises which are not subject to foreign investment restrictions under the 2020 Negative List, and we are therefore required to control Chongqing Lixiang as to 50% (the maximum percentage allowed under the 2020 Negative List) through the Contractual Arrangements.

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Qualification requirements under the FITE Regulations

On December 11, 2001, the State Council promulgated the FITE Regulations, which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including Internet content provision services. In addition, the main foreign investor who invests in a value-added telecommunications business in the PRC must satisfy the Qualification Requirements. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. According to our consultation with the information and communication department of MIIT in February 2021, the MIIT confirmed that there are no detailed rules and standards for the Qualification Requirements and the MIIT will decide whether an applicant meets the Qualification Requirements on a case-by-case basis and there will be significant uncertainty for the relevant entities to obtain or maintain the license for operating value-added telecommunications services if such entities are held directly or indirectly by foreign shareholders that do not have any substantial operation or business.

Notwithstanding the above, we have adopted a specific plan and will continue to expend genuine efforts and financial resources towards meeting the Qualification Requirements. We will remain abreast of any regulatory developments and continuously assess whether we meet the Qualification Requirements, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC Laws.

We are implementing a business plan with a view to gradually building up a track record of overseas telecom business operations for the purposes of being qualified, as early as possible, to acquire the maximum equity interests in the Consolidated Affiliated Entity that hold the license for operating value-added telecommunications services as allowed by PRC laws when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in the value-added telecom enterprises in the PRC. We believe that such business plan represents our commitment and a meaningful endeavour to demonstrate compliance with the Qualification Requirements. Our Company is in the process of expanding its overseas value-added telecom business through its offshore subsidiaries. In particular, we have taken the following steps to meet the Qualification Requirements:

- (i) we have established an overseas website that helps potential overseas users and investors to better understand the Company's products, services and businesses;
- (ii) our Company has, through its subsidiaries, registered and submitted for registration a number of trademarks in various jurisdictions, including Hong Kong, the United States, the United Kingdom, European Union, Norway and so on; and
- (iii) we are in the process of preparing registration of further trademarks in Hong Kong, the United States, the United Kingdom, European Union and Norway.

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We had expended RMB860 thousand in connection with our aforementioned business plan as of the Latest Practicable Date. In our consultation with the MIIT, the MIIT officer confirmed that steps such as those taken by us described above would be helpful to fulfill the Qualification Requirements. Accordingly, subject to the discretion of the competent authority on whether we have fulfilled the Qualification Requirements, our PRC Legal Advisor takes the view that the above steps taken by us are reasonable and appropriate in relation to the Qualification Requirements as we will be able to gain experience in providing value-added telecom services in overseas markets.

We will, as applicable and when necessary, disclose the progress of our overseas business plans and any updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after Listing. We will also make periodic inquiries to relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

As confirmed by our PRC Legal Advisor, as the information and communication development department of the MIIT is responsible for approving applications from foreign investors for the permits in connection with operation of internet information services, such department is the competent authority and the officer interviewed is of the appropriate ranking to provide the confirmation stated above. Our PRC Legal Advisor, the PRC legal advisor of the Joint Sponsors and the Company conducted a verbal consultation with an officer of the MIIT in July, 2021 who confirmed that, in the case of our Company, the MIIT would not issue an ICP License to our Consolidated Affiliated Entity if it becomes a foreign investment entity and its foreign investor meets the Qualification Requirements. The officer further confirmed that, if Beijing CLX becomes a foreign invested enterprise, it would be required to re-apply for an ICP License from the MIIT, and as advised by our Legal Advisor, in such case, the current ICP License obtained by Beijing CLX would be rescinded. As advised by our PRC Legal Advisor, the MIIT is the issuing authority for applications of ICP licenses by Sino-foreign equity joint ventures and wholly-owned foreign investment entities. The official duties of the interviewed official include the formulation of regulatory policies in, and the regulation of, value-added telecommunication services (including the regulatory policies on applications for ICP licenses from Sino-foreign equity joint ventures and wholly-owned foreign investment entities) in the PRC. In light of the foregoing, our PRC Legal Advisor is of the view that the officer interviewed is a competent person to give the above confirmation. On the basis of the above, we are of the view that the Contractual Arrangements are narrowly tailored and we are therefore required to carry out our value-added telecommunication services through the Contractual Arrangements.

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OUR CONTRACTUAL ARRANGEMENTS

Overview

Our Consolidated Affiliated Entities are currently our VIEs and their respective subsidiaries, which were all established under the PRC laws. As described above, investment in certain areas of the industries in which we currently operate and may operate are subject to restrictions under current PRC laws and regulations. After consultation with our PRC Legal Advisor, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership (or to hold more than 50% equity interest in Chongqing Lixiang). Instead, we decided that, in line with common practice in the PRC for industries subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOE, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

In order to comply with the relevant PRC laws and regulations described above, while availing ourselves of international capital markets and maintaining effective control over all of our operations, our Company gained control over Beijing CHJ and its subsidiaries by entering into a series of contractual arrangements through the WFOE, Beijing CHJ and its Registered Shareholders initially in July 2019, and over Xindian Information by entering into a series of contractual arrangements through the WFOE, Xindian Information and its Registered Shareholders initially in April 2019. The Contractual Arrangements currently in effect were entered into on April, 2021 (in replacement of the previous contractual arrangements), whereby the WFOE acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. As a result, we do not directly own any controlling stake in our Consolidated Affiliated Entities.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOE and our Consolidated Affiliated Entities; (ii) by entering into exclusive service and consultation agreements with the WFOE, being subsidiaries of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after Listing; and (iii) a number of other companies in the same or similar industries to those in which we operate use similar arrangements to accomplish the same purpose. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential for conflict with relevant PRC laws and regulations to the maximum extent.

The revenue contribution of all of the Consolidated Affiliated Entities to our Group, taking into account all of their respective businesses with or without foreign investment restrictions under PRC laws, amounted to 0%, 1%, 1% and 0% of the total revenue of our

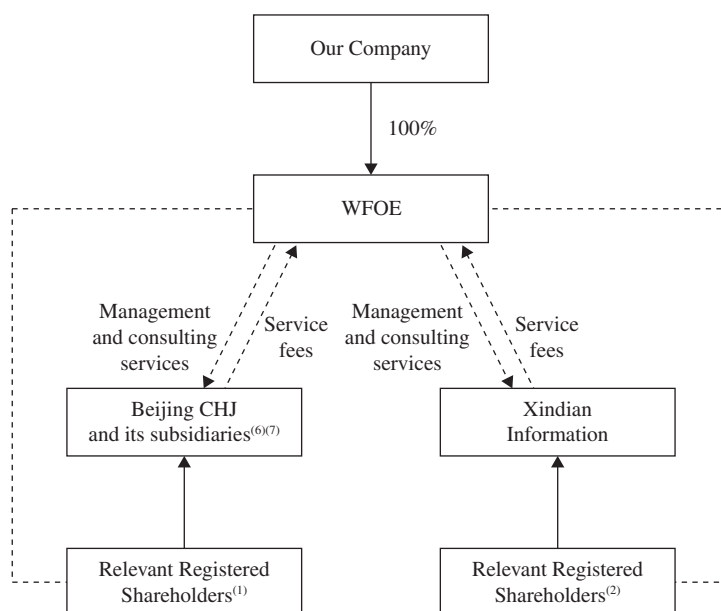
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Group for the years ended December 31, 2018, 2019 and 2020, and for the three months ended March 31, 2021 respectively. The revenue contribution of the businesses of the Consolidated Affiliated Entities with foreign investment restrictions under PRC laws, being the provision of value-added communication services, radio and television production activities and operation of commercial internet culture activities, amounted to RMB2.4 thousand during the Track Record Period. For clarity, the aforementioned Consolidate Affiliated Entities are those consolidate affiliated entities subject to our contractual arrangements following the completion of the Reorganization described in the section headed “History—Reorganization”.

Certain of our Consolidated Affiliated Entities, namely Xindian Information, Zhejiang Lixiang Automobile Co., Ltd., Chehejia Financial Technology (Jiangsu) Co., Ltd., Beijing Xindian Intelligent Technology Co., Ltd. and Chongqing Xinfan, have not yet commenced substantive business operations and are not expected to have commenced any substantive business operations by the time of the Listing. Our Company has undertaken to the Stock Exchange that it will not conduct any businesses within their respective business segments that are not subject to foreign investment restrictions or prohibitions through these entities or, to the extent that it does, it will transfer such entities outside of the VIE Structure prior to engaging in any unrestricted businesses.

Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group under the Contractual Arrangements:



Notes:

- (1) Beijing CHJ is owned by Mr. Li Xiang as to 90.27%, Mr. Shen Yanan as to 5.08% and Mr. Li Tie as to 4.65%.
- (2) Xindian Information is owned by Mr. Li Xiang as to 74%, Mr. Fan Zheng as to 12.92%, Mr. Shen Yanan as to 3.78%, Mr. Li Tie as to 3.46%, Mr. Qin Zhi as to 1.89%, Mr. Liu Qinghua as to 1.09%, Mr. Wei Wei as to 0.46%, Mr. Song Gang as to 0.43%, Mr. Ye Qian as to 0.02% and Mr. Xu Bo as to 1.95%.
- (3) “—>” denotes direct legal and beneficial ownership in the equity interest.

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- (4) “--->” denotes contractual relationship.
- (5) “----” denotes the control by WFOE over the Registered Shareholders and our VIEs through (i) powers of attorney to exercise all shareholders’ rights in our VIEs; (ii) exclusive call options to acquire all or part of the equity interests in our VIEs; and (iii) equity pledges over the equity interests in our VIEs.
- (6) These include certain companies which do not currently carry out any business operations but intend to carry out businesses which are subject to foreign investment restrictions in accordance with the 2020 Negative List. For details of the subsidiaries of our VIEs, see “History, Reorganization and Corporate Structure.”
- (7) 50% of the equity interest in Chongqing Lixiang is held by Beijing CHJ and the remaining 50% is indirectly held by our Company. For details of the subsidiaries of our VIEs, see “History, Reorganization and Corporate Structure.”

Circumstances under which we will unwind the Contractual Arrangements

We will unwind and terminate the Contractual Arrangements as soon as practicable in respect of our vehicle manufacturing to the extent permissible under the applicable PRC laws and regulations. According to the 2020 Negative List, the restriction on foreign ownership in whole vehicle manufacturing (other than NEV manufacturing) will be fully lifted in 2022.

We will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants ICP License to sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

We will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations, or will unwind and terminate the Contractual Arrangements entirely should the foreign ownership restrictions or prohibitions are fully lifted, in respect of our on-ground mobile surveying activities, radio and television production and operation and operation of commercial internet culture activities.

Summary of the material terms of the Contractual Arrangements

Exclusive Consultation and Service Agreements

Under the exclusive consultation and service agreements dated April 21, 2021 between our VIEs and the WFOE (the “**Exclusive Consultation and Service Agreements**”), in exchange for a service fee, payable quarterly, our VIEs agreed to engage the WFOE as its exclusive provider of certain consulting and technical services, including but not limited to software technology development, technology consulting, and technical services required by our VIEs’ business. Under the Exclusive Consultation and Service Agreements, the service fee shall consist of 100% of the total consolidated profit of our VIEs, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses and taxes. Notwithstanding the foregoing, the WFOE may adjust the amount of the services fee according to the services provided by our VIEs, our VIEs’ operational conditions and development needs. The WFOE shall calculate the service fee on a quarterly basis and issue a corresponding invoice to our VIEs. Our VIEs must make the payment to the WFOE within ten business days of receiving such invoice.

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In addition, absent the prior written consent of the WFOE, during the term of the Exclusive Consultation and Service Agreements, with respect to the services subject to the Exclusive Consultation and Service Agreements and other matters, our VIEs shall not accept the same or any similar services provided by any third party. In addition, without the prior consent of the WFOE, our VIEs shall not enter into any business cooperation with any third party, and the WFOE shall have the right of first refusal in respect of such business cooperation with our VIEs under the same terms.

The Exclusive Consultation and Service Agreements also provide that the WFOE has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by our VIEs during the performance of the Exclusive Consultation and Service Agreements.

The Exclusive Consultation and Service Agreements shall remain effective for a period of ten years unless otherwise terminated by the WFOE. Upon request by the WFOE, the term of the Exclusive Consultation and Service Agreements can be renewed prior to their expiration. The Exclusive Consultation and Service Agreements may also be terminated upon mutual agreement by the WFOE and our VIEs.

Equity Option Agreements

Under the equity option agreements dated April 21, 2021 among our VIEs, the WFOE and the Registered Shareholders (the “**Equity Option Agreements**”), the WFOE has the rights to require the Registered Shareholders to transfer any or all their equity interests in our VIEs to the WFOE and/or a third party designated by it, in whole or in part at any time and from time to time, at the lower of the amount of the Registered Shareholders’ respective paid-in capital in our VIEs and the lowest price permitted under applicable PRC laws at the time.

Each Registered Shareholder has covenanted that he/she will not, and will procure in his/her capacity as a shareholder of our VIEs that our VIEs will not, without the WFOE’s (or a third party designated by it) prior written consent, among other things:

- (i) sell, transfer, pledge or dispose of in any other manner any asset, business or revenues, or allow the encumbrance thereon of any security interest (except for those arising in the ordinary course of business of our VIEs or those that have been disclosed to the WFOE and received prior written consent from the WFOE);
- (ii) carry out transactions that will materially adversely affect its assets, liabilities, operations, equity and other legal rights (except for those arising in the ordinary course of business of our VIEs or those that have been disclosed to the WFOE and received prior written consent from the WFOE);
- (iii) distribute any dividend or surplus to its shareholders in any form;

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- (iv) incur, inherit, guarantee or assume any debt (except for debts incurred in the ordinary course of business not incurred under a loan or those that have been disclosed to the WFOE and received prior written consent from the WFOE);
- (v) execute any material contract with a value above RMB200,000, except the contracts executed in the ordinary course of business;
- (vi) increase or decrease their registered capital through a resolution of the shareholders' meeting, or otherwise change the structure of their registered capital;
- (vii) in any manner supplement, change or amend their constitutional documents;
- (viii) merge, consolidate with, acquire or invest in any person;
- (ix) carry out or cause in respect of our VIEs any acquisition, sale of the controlling interest or assets, merger, consolidation, joint venture or partnership arrangement, establishment of any subsidiary, or pass any resolution regarding the reduction of registered capital, dissolution or liquidation;
- (x) implement any capital reorganization, reclassification, division, divestiture or liquidation;
- (xi) carry out or enter into any transactions or agreements with any related parties, shareholders or other relevant parties;
- (xii) incur any debts or assume any financial liabilities, or issue, assume, guarantee, or incur any debt obligations in aggregate exceeding US\$250,000 at any time, unless such debt obligations are based on a current effective business plan;
- (xiii) appoint or remove the chairman, chief executive officer, president, chief operating officer, chief financial officer, chief technology officer or any senior management personnel (vice president and above), or determine the remuneration of the said personnel;
- (xiv) approve or modify any quarterly and annual budgets, business plans and operating plans (including any capital expenditure plans, operating plans and financing plans). Our VIEs and any of their subsidiaries shall obtain the WFOE consent before starting operations at the beginning of each quarter;
- (xv) in any twelve-month period, incurring total expenditures exceeding US\$250,000 or purchasing tangible or intangible assets exceeding US\$250,000, unless the said expenditures are based on a current effective business plan;

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- (xvi) execute any material agreement or contract with any party to the Equity Option Agreement or any related party, and our VIEs or any of their subsidiaries provide under such agreement or contract any commitment, guarantees or responsibilities that are unlimited or may in total exceed US\$250,000 in any twelve-month period;
- (xvii) acquire any vehicle or any real property with a purchase value of more than US\$250,000 through purchase or lease, regardless of whether such purchase is treated as a capital expenditure in accounting;
- (xviii) approve, modify or implement any employee option plan; and
- (xix) make substantial change to accounting methods or policies, or appoint or replace auditors.

In addition, the Registered Shareholders have covenanted that without the written consent of the WFOE (or a third party designated by it), they shall not, among other things:

- (i) supplement, change or amend the constitutional documents of our VIEs to an extent that such supplementation, change or amendment will materially or adversely affect the assets, liabilities, operation, equity and other legal rights of our VIEs, or may affect the performance of the WFOE, Registered Shareholders and our VIEs under the relevant Contractual Arrangements;
- (ii) cause our VIEs to carry out transactions that will materially adversely affect its assets, liabilities, operation, equity and other legal rights (except for those arising in the ordinary course of business of our VIEs or those that have been disclosed to the WFOE and received prior written consent from the WFOE);
- (iii) cause our VIEs to distribute any dividend or surplus to its shareholders;
- (iv) sell, transfer, pledge or dispose of in any manner any of their legal or equitable interests in our VIEs or allow the encumbrance thereon of any security interest;
- (v) cause the shareholders of our VIEs to approve the sell, transfer, pledge or dispose of in any manner any legal or equitable interests in our VIEs or allow the encumbrance thereon of any security interest;
- (vi) cause the shareholders of our VIEs to approve the merger or consolidation of our VIEs with any person, or to acquire or invest in any person; or
- (vii) voluntarily deregister, liquidate or dissolve our VIEs.

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The Registered Shareholders have also undertaken that, subject to the relevant laws and regulations, they will return to the WFOE any consideration they receive in the event that the WFOE exercises the options under the Equity Option Agreements to acquire the equity interests in our VIEs.

The Equity Option Agreements will remain effective for 10 years and can be renewed upon request by the WFOE.

Equity Pledge Agreements

Under the equity pledge agreements dated April 21, 2021 entered into between the WFOE, the Registered Shareholders and our VIEs (the “**Equity Pledge Agreements**”), the Registered Shareholders agreed to pledge all their respective equity interests in our VIEs that they own, including any interest or dividend paid for the shares, to the WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledge in respect of our VIEs takes effect upon the completion of registration with the relevant administration for market regulation and shall remain valid until after all the contractual obligations of the Registered Shareholders and our VIEs under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and our VIEs under the relevant Contractual Arrangements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), the WFOE shall have the right to require our VIEs’ shareholders (i.e. the Registered Shareholders) to immediately pay any amount payable by our VIEs under the Exclusive Consultation and Service Agreements, repay any loans and pay any other due payments, and the WFOE shall have the right to exercise all such rights as a secured party under any applicable PRC law and the Equity Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

The equity pledge in connection with our VIEs has been registered with the relevant PRC governmental authority pursuant to PRC laws and regulations.

Powers of Attorney

The Registered Shareholders have executed powers of attorney dated April 21, 2021 (the “**Powers of Attorney**”). Under the Powers of Attorney, the Registered Shareholders irrevocably appointed the WFOE and their designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to

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exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in our VIEs, including, among others:

- (i) to convene and attend shareholders' meetings of our VIEs;
- (ii) to file documents with the relevant companies registry;
- (iii) to exercise all shareholder's rights and shareholder's voting rights in accordance with law and the constitutional documents of our VIEs, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in our VIEs;
- (iv) to execute any and all written resolutions and meeting minutes and to approve the amendments to the articles of associations in the name and on behalf of such shareholder; and
- (v) to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of our VIEs.

The Powers of Attorney will remain in force for 10 years. Upon request by the WFOE, each Registered Shareholder shall extend the term of the Power of Attorney prior to its expiration.

Business Operation Agreement

In additional to the above, the Registered Shareholders of Xindian Information, Xindian Information and the WFOE entered into a business operation agreement on April 21, 2021 (the "**Business Operation Agreement**"), pursuant to which Xindian Information will not take any action that may have a material adverse effect on its assets, businesses, human resources, rights, obligations, or business operations without prior written consent of the WFOE. Xindian Information and its Registered Shareholders further agreed to accept and strictly follow the WFOE's instructions relating to Xindian Information's daily operations, financial management, and election of directors appointed by the WFOE. The Registered Shareholders of Xindian Information agree to transfer any dividends or any other income or interests they receive as the shareholders of Xindian Information immediately and unconditionally to the WFOE. Unless the WFOE terminates this agreement in advance, the Business Operation Agreement will remain effective for 10 years and can be renewed upon request by the WFOE prior to its expiration. Xindian Information and its Registered Shareholders have no right to terminate this agreement unilaterally. Pursuant to the Business Operation Agreement, each Registered Shareholder of Xindian Information has executed a power of attorney described above to irrevocably authorize the WFOE to act as his or her attorney-in-fact to exercise all of his or her rights as a shareholder of Xindian Information.

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Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission (Beijing) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our VIEs or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of our VIEs; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of the WFOE or our VIEs are located for interim remedies or injunctive relief.

However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal would not to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that our VIEs or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See the section headed “Risk Factors—Risks Relating to our corporate structure” in this document for further details.

Confirmations from the Registered Shareholders

Each of the Registered Shareholders has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in our respective VIEs (together with any other interests therein) or exert influence on the day-to-day management and voting matters of our respective VIEs; and (ii) in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of our respective VIEs, he/she will take necessary actions to safeguard his/her interests in our respective VIEs (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in our respective VIEs (together with any other interests therein) to the effect that the Registered Shareholder’s interests in our VIEs shall not be affected.

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Spouse undertakings

The spouse of each of the Registered Shareholders, where applicable, has signed an undertaking (the “**Spouse Undertakings**”) to the effect that (i) the respective Registered Shareholder’s interests in our respective VIEs (together with any other interests therein) do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the respective Registered Shareholder and will not have any claim on such interests.

Conflict of Interests

Each of the Registered Shareholders has given his/her irrevocable undertakings in the Powers of Attorney which address potential conflict of interests that may arise in connection with the Contractual Arrangements. See “Powers of Attorney” above.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company and the WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite the PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Equity Option Agreements, without the prior written consent of the WFOE, our VIEs shall not, among others:

- (i) sell, transfer, pledge or dispose of in any other manner any asset, business or revenues, or allow the encumbrance thereon of any security interest (except for those arising in the ordinary course of business of our VIEs or those that have been disclosed to the WFOE and received prior written consent from the WFOE);
- (ii) execute any material contract with a value above RMB200,000, except those entered into in the ordinary course of business;
- (iii) incur, inherit, guarantee or assume any debt (except for debts incurred in the ordinary course of business not incurred under a loan or those that have been disclosed to the WFOE and received prior written consent from the WFOE);

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- (iv) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and
- (v) increase or reduce its registered capital, or alter the structure of the registered capital in any other way.

Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from our VIEs can be limited to a certain extent.

Liquidation

Pursuant to the Equity Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws upon the request of the WFOE, the Registered Shareholders of our VIEs shall transfer the proceeds they received from liquidation to the account designated by the WFOE under the management of the WFOE, or give such proceeds as a gift to the WFOE to the extent permitted by the PRC laws.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Advisor is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations to the maximum extent and that:

- (i) each of the WFOE and our VIEs is a duly incorporated and validly existing company and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them is void under the Civil Code of the PRC;
- (iii) none of the agreement under the Contractual Arrangements violates any provisions of the respective articles of association of our VIEs or our WFOE;

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- (iv) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that:
 - (a) the exercise of the option by our WFOE of its rights under the Equity Option Agreements to acquire all or part of the equity interests in our VIEs is subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
 - (b) the equity pledges contemplated under the Equity Pledge Agreements are subject to the registration with the relevant SAMR;
 - (c) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by the PRC courts before compulsory enforcement; and
- (v) Each of the agreements under the Contractual Arrangements is valid, legal and binding under the PRC laws, except that the Contractual Arrangements provide that the arbitral body may award interim remedies over the shares and/or assets of our VIEs, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) and/or order the winding up of our VIEs, and that courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our VIEs) also have jurisdiction for the grant and/or enforcement of arbitral award and interim remedies against the shares and/or assets of our VIEs, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in our VIEs in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

Our PRC Legal Advisor also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations and accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion.

Based on the above analysis and advice from our PRC Legal Advisor, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See the section headed “Risk Factors—Risks Relating to Our corporate structure—If the PRC government deems that our contractual arrangements with our VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

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ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Exclusive Consultation and Service Agreements, it was agreed that, in consideration of the services provided by WFOE, each of our VIEs will pay services fees to the WFOE. The services fees, subject to the WFOE's adjustment, are equal to the entire total consolidated net income of our VIEs. The WFOE may adjust the service fee amount at its sole discretion according to the services provided by our VIEs. Accordingly, the WFOE has the ability, at their sole discretion, to extract all of the economic benefit of our Consolidated Affiliated Entities through the Exclusive Consultation and Service Agreements.

In addition, under the Exclusive Consultation and Service Agreements and the Equity Option Agreements, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as the WFOE's prior written consent is required before any distribution can be made.

As a result of these Contractual Arrangements, our Company exercises control over the operations of our Consolidated Affiliated Entities and receives substantially all of their economic benefits and residual returns. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1(c) to the Accountant's Report in Appendix I to this document.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted but not limited to the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- (iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of the WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People's Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign-Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our consolidated Affiliated Entities, by the WFOE, through which we operate our business in the PRC. As advised by our PRC Legal Advisor, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see "Contractual Arrangements—Legality of the Contractual Arrangements."

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council" without elaboration on the meaning of "other methods." There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See "Risk Factors—Risks Relating to Our Corporate Structure"

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2018, 2019, and 2020 and for the three months ended March 31, 2021, including the notes thereto, 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 U.S. GAAP.

The Stock Exchange has granted us a waiver from strict compliance with the requirements of Rules 4.10 and 4.11 of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules, to allow us to prepare the Accountant's Report set out in Appendix I in conformity with U.S. GAAP, provided that a reconciliation of such financial information in accordance with IFRS, is included in this document. In addition, the Stock Exchange has allowed us to prepare our accounts in accordance with U.S. GAAP after listing for the purposes of our financial reporting required under the Listing Rules, subject to the condition that, among others, our annual consolidated financial statements should include a reconciliation of our financial information in accordance with IFRS in the form and substance adopted in Appendix I to this document.

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 prospectus. For further details, see "Forward-Looking Statements."

OVERVIEW

We are an NEV automaker in China. We design, develop, manufacture, and sell premium smart electric vehicles. Through our product and technology, we provide families with safe and convenient products and services. We are a pioneer in successfully commercializing EREVs in China. Our first and currently the only commercialized model, Li ONE, is a six-seat, large premium electric SUV equipped with a range extension system and advanced smart vehicle solutions. We started volume production of Li ONE in November 2019 and released the 2021 Li ONE on May 25, 2021. As of July 31, 2021, we delivered over 72,000 Li ONEs. In 2020, Li ONE ranked as the best-selling new energy SUV model in China with a 9.7% market share and ranked in the top six in China's NEV market in terms of sales volume with a 2.8% market share, and we ranked as the eleventh among all the NEV brands in China in terms of sales volume, according to the CIC Report.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations are affected by a number of general factors that impact the China automotive industry, including, among others, overall economic growth in China, any increase in per capita disposable income, growth in consumer spending and consumption upgrade, raw material costs, and the competitive environment. They are also affected by a number of factors affecting the China NEV industry, including laws, regulations, and government policies, battery and other new energy technology development, charging infrastructure development, and increasing awareness of the environmental impacts of tailpipe emissions. Unfavorable changes in any of these general factors could adversely affect demand for our vehicles and materially and adversely affect our results of operations.

While our business is influenced by these general factors, our results of operations are more directly affected by the following company-specific factors.

Our ability to attract orders and achieve delivery targets

Our results of operations depend significantly on our ability to attract orders from users and achieve our vehicle delivery targets, both of which impact our sales volume. Appropriate vehicle pricing is essential for us to remain competitive in the China automotive market while preserving our ability to achieve and maintain profitability in the future. When our premium SUVs compete with comparable premium models of other automakers, an attractive price can help boost orders, which in turn may contribute to our sales volume and revenue growth. In addition, it is critical for us to successfully manage production ramp-up and quality control so as to deliver vehicles to users in adequate volume and high quality. The COVID-19 pandemic caused a delay in our production ramp-up in the first quarter of 2021, which required us to spend more time and resources, including overtime work arrangements, than originally planned to meet the delivery targets. The temporary closure of our retail stores or delivery and servicing centers in response to the COVID-19 outbreak and the reduced visitor traffic after reopening also had an impact on the timely achievement of our delivery targets. As a new manufacturer of NEVs, we may have challenges in our quality control processes. See “Risk Factors—Risks Relating to Our Business and Industry—Our ability to develop, manufacture, and deliver automobiles of high quality and appeal to users, on schedule, and on a large scale is unproven and still evolving.” and “Risk Factors—Risks Relating to Our Business and Industry—We may be compelled to undertake product recalls or other actions, which could adversely affect our brand image, financial condition, results of operations, and growth prospects.”

Our ability to control production and material costs

Our cost of sales primarily consists of direct production and material costs. Our future profitability significantly depends on our ability to manufacture our vehicles in an efficient manner. As part of the manufacturing process, we purchase a wide variety of components, raw materials, and other supplies. Due to our adoption of EREV technology, we are able to significantly reduce the battery and body material costs of Li ONE and thus reduce our BOM cost to be comparable to ICE vehicles of a similar class. We expect that our cost of sales will

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be affected primarily by our production volume. Our cost of sales will also be affected, to a lesser extent, by fluctuations in certain raw material prices, although we typically seek to manage these costs and minimize their volatility through our arrangements with the suppliers. As our business further grows in scale and we establish ourselves as a major player in the China NEV industry, we expect to have higher bargaining power and hence more favorable terms from suppliers, including pricing and payment terms.

Our ability to execute effective marketing

Our ability to execute effective marketing will affect the growth of our orders. Demand for our vehicles directly affects our sales volume, which in turn contributes to our revenue growth and our ability to achieve and maintain profitability. Vehicle orders may depend, in part, on whether prospective users find it compelling to purchase our vehicles among competing vehicle models as their first, second, or replacement cars, which in turn depends on prospective users' perception of our brand. We guide our marketing channel selection and marketing expenditure by precisely analyzing the effectiveness of marketing channels based on our needs at various stages of sales and brand awareness. Effective marketing can help amplify our efforts in boosting vehicle sales with efficient costs.

Our ability to maintain and improve operating efficiency

Our results of operations are further affected by our ability to maintain and improve our operating efficiency, as measured by our total operating expenses as a percentage of our revenues. This is important to the success of our business and our prospect of gradually achieving profitability. As our business grows, we expect to further improve our operating efficiency and achieve economies of scale.

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

The COVID-19 pandemic has affected China's automotive industry in general and our Company and our suppliers in particular, resulting in a reduction of vehicles manufactured and delivered in the first quarter of 2020. Due to the COVID-19 pandemic and the related nationwide precautionary and control measures that were adopted in China starting in January 2020, we postponed the production in our Changzhou manufacturing facility after the Chinese New Year holiday in February 2020 for approximately three weeks, and also experienced short-term delays in our suppliers' delivery of certain raw materials needed for production ranging from approximately two weeks to two months. As a result of varying levels of travel and other restrictions for public health concerns in various regions of China, we also temporarily postponed the delivery of Li ONE to our users. In addition, we did not open any new retail stores from January 2020 to April 2020. Following this temporary closure in February 2020, we reopened our retail stores and delivery and servicing centers and have resumed vehicle delivery to our users. By the end of March 2020, the business activities of our suppliers had fully recovered and their delivery of raw materials had resumed to the normal level. In May 2020, we started to open new retail stores as the spread of the COVID-19 slowed

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down in China. The delay in our production ramp-up, expansion of retail stores, and vehicle delivery adversely affected our results of operations for the first quarter of 2020. We did not experience any material cancellation of orders by our users during the COVID-19 pandemic.

Currently, our manufacturing facility has gradually increased its production capacity in accordance with anticipated vehicle delivery based on user orders, and we have not experienced significant constraints on our supply chain or significant increases in our supply costs as a result of the COVID-19 pandemic. Although our vehicle deliveries in the first quarter of 2020 were adversely affected by the COVID-19 pandemic, we achieved satisfactory delivery results in the second, third, and fourth quarter of 2020 and in the first quarter of 2021, as the impact of the COVID-19 pandemic began to alleviate starting from the second quarter of 2020, with most restrictive measures lifted and most of our operations back to the normal level. The total number of vehicles that we delivered in the second quarter of 2020 was 6,604, representing an increase of 128.0% from the first quarter of 2020. The total number of vehicles that we delivered in the third quarter of 2020 was 8,660, representing an increase of 31.1% from the second quarter of 2020. The total number of vehicles that we delivered in the fourth quarter of 2020 was 14,464, representing an increase of 67.0% from the third quarter of 2020. The total number of vehicles that we delivered in the first quarter of 2021 was 12,579, representing an increase of 334.4% from the first quarter of 2020 and a slight decrease of 13.0% from the fourth quarter of 2020. The extent to which the COVID-19 pandemic affects our financial condition, results of operations, and cash flows in the future will depend on the future developments of the pandemic, including the duration and severity of the pandemic, the extent and severity of new waves of outbreak in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment and the effectiveness of such vaccine and other medical treatment, and the actions taken by government authorities to contain the outbreak, all of which are highly uncertain, unpredictable, and beyond our control. In addition, our financial condition, results of operations, and cash flows could be adversely affected to the extent that the pandemic harms the Chinese economy in general. As of December 31, 2020 and March 31, 2021, we had a total of RMB29.9 billion (US\$4.6 billion) and RMB30.4 billion (US\$4.6 billion), respectively, in cash and cash equivalents, restricted cash, and time deposits and short-term investments. We believe that this level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

In light of the uncertainties in the global market and economic conditions attributable to the COVID-19 pandemic, we will continue to evaluate the nature and extent of the impact of the COVID-19 pandemic to our financial condition and liquidity. See also “Risk Factors—Risks Relating to Our Business and Industry—Pandemics and epidemics, natural disasters, terrorist activities, political unrest, and other outbreaks could disrupt our production, delivery, and operations, which could materially and adversely affect our business, financial condition, and results of operations.” Our Directors believe that the COVID-19 pandemic would not materially affect our expansion plan or use of proceeds under the current situation.

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CRITICAL ACCOUNTING POLICIES

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates, and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments, and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this prospectus. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Revenue Recognition

We recognize revenues from vehicle sales and peripheral products and services. We adopted ASC 606, Revenue from Contracts with Users, on January 1, 2018 by applying the full retrospective method.

Revenue is recognized when or as the control of the goods or services is transferred to a user. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

Contracts with users may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to users. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

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Vehicle Sales

We recognize revenues from sales of vehicles and other embedded products and services. There are multiple distinct performance obligations explicitly stated in the sales contracts including sales of Li ONE, charging stalls, vehicle internet connection services, FOTA upgrades, and extended lifetime warranties for initial owners, subject to certain conditions, which are accounted for in accordance with ASC 606. The standard warranty we provide is accounted for in accordance with ASC 460, Guarantees, and the estimated costs are recorded as a liability when we transfer the control of Li ONE to a user.

Users only pay the amount after deducting the government subsidies to which they are entitled for the purchase of NEVs, which are applied on their behalf and collected by us from the government according to the applicable government policy. We have concluded that government subsidies should be considered as a part of the transaction price we charge the users for the NEVs, as subsidies are granted to NEV purchasers and such purchasers remain liable for such amount if the subsidies are not received by us due to the purchasers' fault. After the issuance of the circular by the PRC Ministry of Finance and other national regulatory authorities in April 2020 to reduce the amount of subsidies in 10% increments each year commencing from 2020, only NEVs with an MSRP of RMB300,000 or less before subsidies are eligible for such subsidies starting from July 2020, and the MSRP of Li ONE is higher than the threshold. Li ONE used to be eligible for a government subsidy of RMB10,000 per individual buyer before April 2020 or RMB8,500 per individual buyer from April to July 2020. After July 2020, Li ONE is no longer eligible for the government subsidy.

The overall contract price is allocated to each distinct performance obligation based on the relative estimated standalone selling price in accordance with ASC 606. The revenues for sales of vehicles and charging stalls are recognized at a point in time when the control of the products are transferred to users. For vehicle internet connection services and FOTA upgrades, revenues are recognized using a straight-line method over the service period. For the extended lifetime warranties for initial owners, given the limited operating history and lack of historical data, the revenues are recognized over time based on a straight-line method over the extended warranty period initially, and we will continue to monitor the cost pattern periodically and adjust the revenue recognition pattern to reflect the actual cost pattern as it becomes available.

As the purchase price for vehicles and all embedded products and services must be paid in advance, which means the payments are received prior to the transfer of products or services by us, we record a contract liability (deferred revenue) for the allocated amount regarding those unperformed obligations.

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Sales of Li Plus Membership

We also sell the Li Plus Membership to users and the total Li Plus Membership fee is allocated to each performance obligation based on the relative estimated standalone selling price. The revenue for each performance obligation is recognized either over the service period or at a point in time when the relevant product or service is delivered or when the membership is expired, whichever is earlier.

Customer Loyalty Points

Beginning in January 2020, we offer customer loyalty points, which can be redeemed for merchandise or services in our online store. We determine the value of each customer loyalty point based on the cost of our merchandise or services that can be obtained through redemption of the customer loyalty points.

We conclude that the customer loyalty points offered to customers in connection with the purchase of Li ONE is a material right and is considered to be a separate performance obligation according to ASC 606, and should be taken into consideration when allocating the transaction price of the sales of vehicle. The amount allocated to the customer loyalty points as separate performance obligation is recorded as contract liability (deferred revenue) and revenue should be recognized when the customer loyalty points are used or expired.

Customers or users of our mobile application can also obtain customer loyalty points through other ways, such as referring new customers to purchase the vehicles via the mobile application. As we offer these customer loyalty points to encourage user engagement and generate market awareness, we account for such points as selling and marketing expenses with a corresponding liability recorded under accruals and other current liabilities upon the points offering.

Practical Expedients and Exemptions

We elect to expense the costs to obtain a contract as incurred given the majority of the contract considerations for vehicle sales are allocated to the sales of Li ONE and recognized as revenues upon transfer of control of the vehicles, which is within one year after entering the sales contracts.

Product Warranties

We provide product warranties on all new vehicles based on the contracts with our users at the time of sale of vehicles. We accrue a warranty reserve for the vehicles sold, which includes the best estimates of projected costs to repair or replace vehicles under warranties. These estimates are primarily based on the estimates of the nature, frequency, and average costs of future claims. These estimates are inherently uncertain given our relatively short history of sales, and changes to the historical or projected warranty experience may cause material changes to the warranty reserve in the future. The portion of the warranty reserve

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expected to be incurred within the next 12 months is included within the accrued and other current liabilities while the remaining balance is included within other non-current liabilities in the consolidated balance sheets. Warranty cost is recorded as a component of cost of sales in the consolidated statements of comprehensive loss. We reevaluate the adequacy of the warranty accrual on a regular basis.

We recognize the benefit from a recovery of the costs associated with the warranty when specifics of the recovery have been agreed with our suppliers and the amount of the recovery is virtually certain.

Impairment of Long-Lived Assets and Intangible Assets with Indefinite Lives

Long-lived assets include property, plant and equipment and intangible assets with definite lives. Long-lived assets are assessed for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be recoverable in accordance with ASC 360. We measure the carrying amount of a long-lived asset against the estimated undiscounted future cash flows associated with it. The impairment exists when the estimated undiscounted future cash flows are less than the carrying value of the asset being evaluated.

Intangible assets with indefinite lives are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the assets are impaired in accordance with ASC 350. We first perform a qualitative assessment to assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. If we determine that it is more likely than not that the indefinite-lived intangible asset is impaired after performing the qualitative assessment, we calculate the fair value of the intangible asset and perform the quantitative impairment test by comparing the fair value of the asset with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, we recognize an impairment loss in an amount equal to that excess. In consideration of the growing electric vehicle industry in China, our improving financial performance, the stable macroeconomic conditions in China, and our future manufacturing plans, we determined that it is not likely that the indefinite-lived intangible assets were impaired as of December 31, 2018, 2019, 2020 and March 31, 2021.

Consolidation of VIEs

Subsidiaries are those entities in which we, directly or indirectly, control more than half of the voting power, have the power to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of the board of directors, or have the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

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A VIE is an entity in which we, or any of our subsidiaries, through contractual arrangements, have the power to direct the activities that most significantly impact the entity's economic performance, bear the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore we or our subsidiary is the primary beneficiary of the entity.

All significant intercompany balances and transactions within the group have been eliminated upon consolidation.

Share-Based Compensation

We grant share options to eligible employees, directors and consultants and accounts for share-based compensation in accordance with ASC 718, Compensation—Stock Compensation.

Employees' share-based compensation awards granted with service conditions and the occurrence of an initial public offering as performance condition, are measured at the grant date fair value. Cumulative share-based compensation expenses for the options that have satisfied the service condition are recorded upon the completion of our initial public offering in the United States using the graded-vesting method.

The binomial option-pricing model is used to measure the value of share options. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rates and expected dividends. The fair value of these awards was determined taking into account these factors.

The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and application of management judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period. Moreover, the estimates of fair value of the awards are not intended to predict actual future events or the value that ultimately will be realized by grantees who receive share-based awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by Li Auto Inc. for accounting purposes.

In July 2019, our board of directors and members approved the 2019 Plan to secure and retain the services of valuable employees, directors, and consultants and provide incentives for such persons to exert their best efforts for the success of our business. The maximum aggregate number of Class A ordinary shares which may be issued under the 2019 Plan is 141,083,452 as of the date of this prospectus.

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We began to grant share options to employees from 2015. In conjunction with our reorganization in July 2019, we transferred share options from Beijing CHJ to Li Auto Inc. The share options under the 2019 Plan have a contractual term of ten years from the grant date. The options granted have both service and performance condition. The options are generally scheduled to be vested over five years, one-fifth of the awards shall be vested upon the end of the calendar year in which the awards were granted. Meanwhile, the options granted are only exercisable upon the occurrence of our initial public offering in the United States.

In July 2020, our board of directors and members adopted the 2020 Plan, which allows us to grant options to our employees, directors, and consultants. The maximum number of Class A ordinary shares that may be issued pursuant to all awards under the 2020 Plan upon the Listing is 165,696,625.

In March 2021, we adopted the 2021 Plan and granted options to purchase 108,557,400 Class B Ordinary Shares to Mr. Xiang Li, the Company's founder and chief executive officer. On May 5, 2021, our board of directors approved to replace these share options with the same amount of restricted Class B ordinary shares under the 2021 Plan. These Class B ordinary shares will be converted to Class A ordinary shares on a one-to-one basis with effect immediately upon the Listing.

As of December 31, 2018 and 2019, we had not recognized any share-based compensation expenses for options granted, because we consider that it is not probable that the performance conditions will be satisfied until the event occurs. We recorded share-based compensation expenses of RMB142.8 million (US\$21.8 million) for the year ended December 31, 2020, including cumulative share-based compensation expenses recognized upon the completion of our initial public offering in the United States. We recorded share-based compensation expenses of RMB182.9 million (US\$27.9 million) for the three months ended March 31, 2021.

Fair Value of Options

For share options for the purchase of ordinary shares granted to employees, directors and consultants classified as equity awards, the related share-based compensation expenses would be measured based on the fair value of the awards on the grant date, which is calculated using the binomial option pricing model. The determination of the fair value is affected by the share price as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, actual and projected employee share option exercise behavior, risk-free interest rates and expected dividends. The fair value of the ordinary shares is assessed using the income approach/discounted cash flow method, with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant.

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The fair value of each option granted under the 2019 Plan and 2020 Plan for the years ended December 31, 2018, 2019, and 2020 and for the three months ended March 31, 2020 and 2021 was estimated on the date of each grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|--|---------------------------------|---------------|---------------|--------------------------------------|-------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | <i>(Unaudited)</i> | |
| Exercise price (US\$) | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Fair value of the ordinary shares on the date of option grant (US\$) | 0.77 – 0.89 | 0.90 – 1.45 | 1.35 – 1.90 | 1.45 | 14.42 |
| Risk-free interest rate | 3.69% – 3.92% | 1.98% – 3.17% | 0.69% – 1.92% | 1.92% | 0.93% |
| Expected term (in years) | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Expected dividend yield | 0% | 0% | 0% | 0% | 0% |
| Expected volatility | 50% – 51% | 47% – 48% | 45% – 46% | 45% | 47% |

The fair value of the option granted under the 2021 Plan was estimated on the date of grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

| | For the Three Months Ended March 31, |
|--|--------------------------------------|
| | 2021 |
| Exercise price (US\$) | 14.63 |
| Fair value of the ordinary shares on the date of option grant (US\$) | 10.67 |
| Risk-free interest rate | 1.59% |
| Expected term (in years) | 10.00 |
| Expected dividend yield | 0% |
| Expected volatility | 47% |

Risk-free interest rate is estimated based on the yield curve of U.S. Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. We have never declared or paid any cash dividends on its capital stock, and we do not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

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Fair Value of Ordinary Shares

The following table sets forth the fair value of our ordinary shares estimated at the grant dates of share options before our listing on the Nasdaq.

| Valuation Date | Fair Value per Share (US\$) | DLOM | Discount Rate |
|-------------------|-----------------------------------|------|------------------|
| January 1, 2018 | 0.77 | 20% | 30.0% |
| July 1, 2018 | 0.89 | 20% | 28.0% |
| January 1, 2019 | 0.90 | 15% | 28.0% |
| July 1, 2019 | 1.27 | 10% | 27.0% |
| December 31, 2019 | 1.45 | 10% | 26.5% |
| March 31, 2020 | 1.35 | 10% | 27.0% |
| July 1, 2020 | 1.90 | 5% | 26.0% |

In determining the grant date fair value of our ordinary shares for purposes of recording share-based compensation in connection with employee stock options, we evaluated the use of income approach to estimate the enterprise value of our company and income approach (discounted cash flow, or DCF method) was relied on for value determination. The determination of the fair value of our ordinary shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair value of ordinary shares include:

- weighted average cost of capital, or WACC: The WACCs were determined with a consideration of the factors including risk-free rate, systematic risk, equity market premium, size of our company and our ability to achieve forecasted projections; and
- discount for lack of marketability, or DLOM: DLOM was quantified by the Finnerty's Average-Strike put options mode. Under this option-pricing method, which assumed that the put option is struck at the average price of the stock before the privately held shares can be sold, the cost of the put option was considered as a basis to determine the DLOM.

The income approach involves applying appropriate WACCs to estimated cash flows that are based on earnings forecasts. Our expected revenues and earnings growth rates, as well as major milestones that we have achieved, contributed to the increase in the fair value of our ordinary shares from 2016 to 2019. The COVID-19 outbreak adversely affected our consolidated results of operations for the first quarter of 2020, resulting in a decrease in the fair value of our ordinary shares as of March 31, 2020. However, these fair values are inherently uncertain and highly subjective. The assumptions used in deriving the fair values are consistent with our business plan. These assumptions include: no material changes in the existing political, legal and economic conditions in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts. These assumptions are inherently uncertain.

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The risk associated with achieving our forecasts were assessed in selecting the appropriate WACCs, which ranged from 26% to 30%. The option-pricing method was used to allocate equity value to preferred and ordinary shares. This method involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of our company or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board of directors and management.

Significant Factors Contributing to the Difference in Fair Value Determined

The determined fair value of our ordinary shares increased from US\$0.77 per share as of January 1, 2018 to US\$0.90 per share as of January 1, 2019. We believe that the increase in the fair value of our ordinary shares was primarily attributable to the following factors:

- we raised additional capital by issuing Series B-2 preferred shares in June 2018 and by issuing Series B-3 preferred shares in January 2019 to certain investors, which provided us with additional capital for our business expansion;
- as we progressed towards being qualified for an initial public offering in the United States, the lead time to an expected liquidity event decreased, resulting in a decrease of DLOM from 20% as of January 1, 2018 to 15% as of January 1, 2019; and
- as a result of progress events described above and the continuous growth of our business, the discount rate decreased from 30.0% as of January 1, 2018 to 28.0% as of January 1, 2019.

The determined fair value of our ordinary shares increased from US\$0.90 per share as of January 1, 2019 to US\$1.45 per share as of December 31, 2019. We believe that the increase in the fair value of our ordinary shares was primarily attributable to the following factors:

- we raised additional capital by issuing Series C preferred shares in July 2019 to certain investors, which provided us with additional capital for our business expansion;
- as we progressed towards being qualified for an initial public offering in the United States, the lead time to an expected liquidity event decreased, resulting in a decrease of DLOM from 15% as of January 1, 2019 to 10% as of December 31, 2019; and
- as a result of progress events described above and the continuous growth of our business, the discount rate decreased from 28.0% as of January 1, 2019 to 26.5% as of December 31, 2019.

The determined fair value of our ordinary shares decreased from US\$1.45 per share as of December 31, 2019 to US\$1.35 per share as of March 31, 2020. We believe that the decrease in the fair value of our ordinary shares was primarily attributable to the following factor:

- due to the outbreak of the COVID-19 pandemic in China since the end of January 2020, there has been uncertainty and disruption in the Chinese economy and the China automotive industry; therefore the discount rate increased from 26.5% as of December 31, 2019 to 27.0% as of March 31, 2020.

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The determined fair value of our ordinary shares increased from US\$1.35 per share as of March 31, 2020 to US\$1.90 per share as of July 1, 2020. We believe that the increase in the fair value of our ordinary shares was primarily attributable to the following factors:

- as we progressed towards being qualified for an initial public offering, the lead time to an expected liquidity event decreased, resulting in a decrease of DLOM from 10% as of March 31, 2020 to 5% as of July 1, 2020; and
- as a result of progress events described above and the continuous growth of our business, the discount rate decreased from 27.0% as of March 31, 2020 to 26.0% as of July 1, 2020.

Warrants and Derivative Liabilities

As the warrants and derivative liabilities are not traded in an active market with readily observable quoted prices, we use significant unobservable inputs (Level 3) to measure the fair value of these warrants and derivative liabilities at inception and at each subsequent balance sheet date.

Our Directors adopted the following procedures in relation to the valuation of our Level 3 financial liabilities: (i) reviewed the terms of Preferred Shares agreements; (ii) engaged an independent professional valuer that has appropriate qualifications and relevant experience; (iii) reviewed and discussed with the valuer on the valuation methodology and relevant assumptions; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the Level 3 fair value measurements in our financial statements are properly prepared.

For valuation dates before June 30, 2020, significant factors, assumptions and methodologies used in determining the fair value of these warrants and derivative liabilities, include applying the discounted cash flow approach, and such approach involves certain significant estimates which are as follows:

Discount Rate

| Date | Discount Rate |
|--------------------|----------------------|
| January 7, 2019 | 31% |
| March 31, 2019 | 31% |
| June 30, 2019 | 30% |
| July 2, 2019 | 30% |
| September 30, 2019 | 29% |
| December 31, 2019 | 29% |
| March 31, 2020 | 30% |
| June 30, 2020 | 29% |

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The discount rates listed out in the table above were based on the cost of equity, which was calculated using the capital asset pricing model, or CAPM, the most commonly adopted method for estimating the required rate of return for equity. Under CAPM, the cost of equity was determined by considering a number of factors including risk-free rate, systematic risk, equity market premium, size of our company and our ability to achieve forecasted projections.

Upon the completion of our initial public offering in the United States, the fair value of warrants and derivative liabilities is determined with reference to the initial public offering price of our ADSs on the Nasdaq Global Select Market.

Comparable Companies

In deriving the cost of equity as the discount rates under the income approach, certain publicly traded companies were selected for reference as our guideline companies. The guideline companies were selected based on the following criteria: (i) they design, develop, manufacture, and sell electric vehicles and (ii) their shares are publicly traded in Hong Kong or the United States.

The following summarizes the rollforward of the beginning and ending balance of the Level 3 warrants and derivative liabilities:

| | <u>Total</u> |
|--|-------------------------|
| | RMB |
| Fair value of Level 3 warrants and derivative liabilities | |
| as of December 31, 2018 | — |
| Issuance | 1,240,859 |
| Unrealized fair value change loss | 504,164 |
| Exercise | (45,858) |
| Expire | (77,739) |
| Translation to reporting currency | <u>27,264</u> |
| Fair value of Level 3 warrants and derivative liabilities | |
| as of December 31, 2019 | <u><u>1,648,690</u></u> |
| Issuance | 328,461 |
| Unrealized fair value change gain | (272,327) |
| Exercise | (1,706,003) |
| Translation to reporting currency | <u>1,179</u> |
| Fair value of Level 3 warrants and derivative liabilities | |
| as of December 31, 2020 | <u><u>—</u></u> |

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Unrealized fair value change loss/(gain) and expire are recorded “Changes in fair value of warrants and derivative liabilities” in the consolidated statements of comprehensive loss.

The fair value measurement of warrants and derivative liabilities is set forth in Note 28 to the Accountant’s Report in Appendix I to this prospectus, which was issued by the Reporting Accountant in accordance with HKSIR 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant’s opinion on our historical financial information for the Track Record Period as a whole is set out on page I-2 of Appendix I to this prospectus.

In relation to the fair value measurement of the warrants and derivative liabilities categorized within Level 3 of fair value measurement, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes and disclosure in the Accountants’ Report in Appendix I to this prospectus; (ii) discussing with the Company and the Reporting Accountant the valuation methodology, and the key basis and assumptions for the valuation of the warrants liabilities and derivative liabilities categorized within Level 3 of fair value measurement; (iii) reviewed the valuation analysis prepared by the external valuer engaged by the Company; and (iv) obtaining and reviewing the credentials of the external valuer engaged by the Company. Having considered the work done by the Directors and the Reporting Accountant and the relevant due diligence conducted by the Joint Sponsors, nothing has come to the Joint Sponsors’ attention to disagree with the Directors and the Reporting Accountant in respect of the valuation of such warrants and derivative liabilities.

DESCRIPTION OF KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

Our revenues consist of vehicle sales and other sales and services revenues. We began recognizing vehicle sales revenues in December 2019, when we began making deliveries of Li ONEs. We also recognize revenues from peripheral products and services, including embedded products and services of vehicle sales such as charging stalls, vehicle internet connection services, FOTA upgrades, and extended lifetime warranties for initial owners, standalone services such as our Li Plus Membership, and maintenance service.

Cost of Sales

Our cost of sales primarily consists of cost of vehicles sales, including direct production and material costs, labor costs, manufacturing overhead (including depreciation of assets associated with the production), shipping and logistics costs, and reserves for estimated warranty costs.

Operating Expenses

Our operating expenses consist of research and development expenses and selling, general and administrative expenses.

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Research and Development Expenses

Our research and development expenses consist of (i) employee compensation for our research and development staff, including salaries, bonuses, and other benefits, (ii) design and development expenses, primarily including consultation fees and validation and testing fees, (iii) depreciation and amortization expenses of equipment and software for our research and development activities, and (iv) rental and other expenses. Research and development costs are expensed as incurred.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist of (i) employee compensation for employees other than research and development staff, including salaries, bonuses, and other benefits, (ii) marketing and promotional expenses, (iii) rental and related expenses primarily for our offices, retail stores and delivery and servicing centers, (iv) depreciation and amortization expenses primarily relating to leasehold improvements, factory buildings, facilities and equipment before the start of production, and (v) office supplies and other expenses.

Interest Expense

Interest expense represents accrued interest with respect to our indebtedness, including convertible debt, financing lease for our manufacturing facility, secured note payable, and borrowings.

Investment Income, Net

Investment income primarily consists of gain from short-term investments and fair value change of long-term investments.

Foreign Exchange (Loss)/Gain, Net

Foreign exchange (loss)/gain, net, represent loss or gain resulting from the fluctuations in foreign exchange rates.

Share of Loss of Equity Method Investees

Share of loss of equity method investees primarily consists of our share of loss of a joint venture investee.

Change in Fair Value of Warrants and Derivative Liabilities

Change in fair value of warrants and derivative liabilities consists of fair value change of the warrants issued during our Series B-3 financing and Series C financing and the conversion feature bifurcated from our preferred shares.

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TAXATION

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains, or appreciation, and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties, which may be applicable on instruments executed in, or brought within the jurisdiction of, the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Our subsidiary incorporated in Hong Kong, Leading Ideal HK Limited, is subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Under the Hong Kong tax laws, our subsidiary in Hong Kong is exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our subsidiary in Hong Kong to us are not subject to any Hong Kong withholding tax.

China

Beijing CHJ is qualified as a high and new technology enterprise under the PRC Enterprise Income Tax Law and is eligible for a preferential enterprise income tax rate of 15%, while other PRC companies are subject to enterprise income tax at a uniform rate of 25%. The enterprise income tax is calculated based on an entity's global income as determined under PRC tax laws and accounting standards.

Our vehicles sales are subject to value-added tax at a rate of 13%, less the value-added tax we have already paid or borne. We are also subject to surcharges on value-added tax payments in accordance with PRC laws.

Dividends paid by our PRC subsidiaries in China to our Hong Kong subsidiary will be subject to a withholding tax rate of 10%, unless the Hong Kong subsidiary satisfies all the requirements under the Arrangement Between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital and receives approval from the relevant tax authority, in which case dividends paid to the Hong Kong subsidiary will be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the aforementioned approval requirement had been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and to settle overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority.

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

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the periods presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this prospectus. The results of operations in any period are not necessarily indicative of our future trends.

| | For the Year Ended December 31, | | | | For the Three Months Ended March 31, | | |
|---|---------------------------------|--------------------|--------------------|--------------------|--------------------------------------|--------------------|------------------|
| | 2018 | 2019 | 2020 | | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | |
| Revenues: | | | | | | | |
| —Vehicle sales | — | 280,967 | 9,282,703 | 1,416,817 | 841,058 | 3,463,673 | 528,660 |
| —Other sales and services | — | 3,400 | 173,906 | 26,543 | 10,617 | 111,528 | 17,022 |
| Total revenues | — | 284,367 | 9,456,609 | 1,443,360 | 851,675 | 3,575,201 | 545,682 |
| Cost of sales⁽¹⁾: | | | | | | | |
| —Vehicle sales | — | (279,555) | (7,763,628) | (1,184,961) | (769,996) | (2,878,994) | (439,420) |
| —Other sales and services | — | (4,907) | (143,642) | (21,924) | (13,391) | (79,474) | (12,130) |
| Total cost of sales | — | (284,462) | (7,907,270) | (1,206,885) | (783,387) | (2,958,468) | (451,550) |
| Gross (loss)/profit | — | (95) | 1,549,339 | 236,475 | 68,288 | 616,733 | 94,132 |
| Operating expenses: | | | | | | | |
| —Research and development ⁽¹⁾ | (793,717) | (1,169,140) | (1,099,857) | (167,871) | (189,690) | (514,500) | (78,528) |
| —Selling, general and administrative ⁽¹⁾ | (337,200) | (689,379) | (1,118,819) | (170,765) | (112,761) | (509,924) | (77,830) |
| Total operating expenses | (1,130,917) | (1,858,519) | (2,218,676) | (338,636) | (302,451) | (1,024,424) | (156,358) |

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| | For the Year Ended December 31, | | | | For the Three Months Ended March 31, | | |
|--|---------------------------------|--------------------|------------------|------------------|--------------------------------------|------------------|-----------------|
| | 2018 | 2019 | 2020 | | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | |
| Loss from operations | (1,130,917) | (1,858,614) | (669,337) | (102,161) | (234,163) | (407,691) | (62,226) |
| Other (expense)/income: | | | | | | | |
| Interest expense | (63,467) | (83,667) | (66,916) | (10,213) | (19,635) | (14,582) | (2,226) |
| Interest income | 3,582 | 30,256 | 41,316 | 6,306 | 7,595 | 29,694 | 4,532 |
| Investment income/(loss), net | 68,135 | 49,375 | 213,600 | 32,602 | (23,770) | 148,778 | 22,708 |
| Share of loss of equity method investees | (35,826) | (162,725) | (2,520) | (385) | (420) | (322) | (49) |
| Foreign exchange (loss)/gain, net | (3,726) | 31,977 | (6,719) | (1,026) | 1,970 | (93,494) | (14,270) |
| Changes in fair value of warrants and derivative liabilities | — | (426,425) | 272,327 | 41,565 | 176,283 | — | — |
| Others, net | (3,077) | 1,949 | 29,372 | 4,483 | 654 | 3,605 | 550 |
| Loss before income tax expense | (1,165,296) | (2,417,874) | (188,877) | (28,829) | (91,486) | (334,012) | (50,981) |
| Net loss | (1,532,318) | (2,438,536) | (151,657) | (23,148) | (77,113) | (359,967) | (54,943) |

Note:

(1) Share-based compensation expenses were allocated as follows:

| | For the Year Ended December 31, | | | | For the Three Months Ended March 31, | | |
|--|---------------------------------|----------|----------------|---------------|--------------------------------------|----------------|---------------|
| | 2018 | 2019 | 2020 | | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | |
| Cost of sales | — | — | 1,515 | 231 | — | 6,209 | 948 |
| Research and development expenses | — | — | 60,789 | 9,278 | — | 116,609 | 17,798 |
| Selling, general and administrative expenses | — | — | 80,491 | 12,285 | — | 60,110 | 9,175 |
| Total | — | — | 142,795 | 21,794 | — | 182,928 | 27,921 |

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

Revenues

Our total revenues increased from RMB851.7 million in the three months ended March 31, 2020 to RMB3.6 billion (US\$545.7 million) in the three months ended March 31, 2021, due to the increase in sales volume of vehicles. Revenues from vehicle sales were RMB3.5 billion (US\$528.7 million) in the three months ended March 31, 2021, compared with RMB841.1 million in the three months ended March 31, 2020. The increase was primarily attributable to the increase in vehicle deliveries with the continuous expansion of our sales network. Revenues from other sales and services were RMB111.5 million (US\$17.0 million) in the three months ended March 31, 2021, compared with RMB10.6 million in the three months ended March 31, 2020. The increase was primarily attributable to increased sales of charging stalls, accessories, and services in line with higher accumulated vehicle sales.

Cost of Sales

Our cost of sales increased from RMB783.4 million in the three months ended March 31, 2020 to RMB3.0 billion (US\$451.6 million) in the three months ended March 31, 2021, primarily due to the increase in sales volume of vehicles.

Gross Profit

As a result of the foregoing, our gross profit increased from RMB68.3 million in the three months ended March 31, 2020 to RMB616.7 million (US\$94.1 million) in the three months ended March 31, 2021. Gross profit from vehicle sales increased from RMB71.1 million for the three months ended March 31, 2020 to RMB584.7 million (US\$89.2 million) for the three months ended March 31, 2021. Gross profit from other sales and services was RMB32.1 million (US\$4.9 million) for the three months ended March 31, 2021, compared with a gross loss of RMB2.8 million for the three months ended March 31, 2020. The increase of gross profit for the three months ended March 31, 2021 was primarily attributable to increased vehicle deliveries and increased sales of accessories and services in line with higher accumulated vehicle sales with higher gross margin benefiting from economies of scale.

Research and Development Expenses

Our research and development expenses increased from RMB189.7 million in the three months ended March 31, 2020 to RMB514.5 million (US\$78.5 million) in the three months ended March 31, 2021, primarily attributable to (i) increased share-based compensation expenses derived from incremental share options granted with higher fair value in January 2021 while no share-based compensation expenses were recognized for stock options with service conditions and a performance condition related to our initial public offering in the United States in the first quarter of 2020, (ii) increased research and development activities for our next vehicle models, and (iii) increased headcount. Excluding the impact of share-based compensation expenses, our research and development expenses increased from RMB189.7 million in the three months ended March 31, 2020 to RMB397.9 million (US\$60.7 million) in the three months ended March 31, 2021.

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Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased from RMB112.8 million in the three months ended March 31, 2020 to RMB509.9 million (US\$77.8 million) in the three months ended March 31, 2021, primarily driven by (i) increased marketing and promotional activities, (ii) increased headcount and rental expenses with the expansion of our sales network, and (iii) increased share-based compensation expenses.

Loss from Operations

As a result of the foregoing, the operating loss increased from RMB234.2 million in the three months ended March 31, 2020 to RMB407.7 million (US\$62.2 million) in the three months ended March 31, 2021.

Interest Expense

Our interest expense decreased from RMB19.6 million in the three months ended March 31, 2020 to RMB14.6 million (US\$2.2 million) in the three months ended March 31, 2021, primarily attributable to the decreased principal of the corporate loan in June 2020.

Investment Income/(Loss), Net

We recorded net investment loss of RMB23.8 million in the three months ended March 31, 2020 due to the decrease in the fair value of certain equity securities we invested, as compared to net investment income of RMB148.8 million (US\$22.7 million) in the three months ended March 31, 2021, primarily attributable to a significant expansion in the scale of our investment in wealth management products.

Foreign Exchange (Loss)/Gain, Net

We recorded net foreign exchange loss of RMB93.5 million (US\$14.3 million) in the three months ended March 31, 2021, compared with net foreign exchange gain of RMB2.0 million in the three months ended March 31, 2020, primarily attributable to fluctuations in foreign exchange rates.

Change in Fair Value of Warrants and Derivative Liabilities

We recorded RMB176.3 million fair value gain of warrants and derivative liabilities in the three months ended March 31, 2020, and these warrants and derivative liabilities were expired or exercised upon the completion of the initial public offering in the United States in July 2020.

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Net Loss

As a result of the foregoing, we incurred net loss of RMB360.0 million (US\$54.9 million) in the three months ended March 31, 2021, compared with net loss of RMB77.1 million in the three months ended March 31, 2020.

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

Revenues

We began making deliveries of Li ONEs in December 2019, making 2020 our first full year after commencing vehicle deliveries. Our total revenues increased from RMB284.4 million in 2019 to RMB9.5 billion (US\$1.4 billion) in 2020, due to increase in sales volume of vehicles. Revenues from vehicle sales were RMB9.3 billion (US\$1.4 billion) in 2020, compared with RMB281.0 million in 2019. Revenues from other sales and services were RMB173.9 million (US\$26.5 million) in 2020, compared with RMB3.4 million in 2019.

Cost of Sales

Our cost of sales increased from RMB284.5 million in 2019 to RMB7.9 billion (US\$1.2 billion) in 2020, primarily due to the increase of direct production and material costs, labor costs, manufacturing overhead, shipping and logistic costs, and reserves for estimated warranty costs. The increase of the cost of sales was the result of the increase in sales volume of vehicles.

Gross (Loss)/Profit

As a result of the foregoing, we generated gross profit of RMB1.5 billion (US\$236.5 million) in 2020, compared with RMB0.1 million gross loss in 2019. Gross profit from vehicle sales was RMB1.5 billion (US\$231.9 million) in 2020, compared with a gross profit of RMB1.4 million in 2019. Gross profit from other sales and services was RMB30.3 million (US\$4.6 million) in 2020, compared with a gross loss of RMB1.5 million in 2019. The increase of gross profit in 2020 was primarily attributable to increased vehicle deliveries and increased sales of accessories and services in line with higher accumulated vehicle sales with higher gross margin benefiting from economies of scale.

Research and Development Expenses

Our research and development expenses decreased from RMB1.2 billion in 2019 to RMB1.1 billion (US\$167.9 million) in 2020, primarily attributable to a decrease in design and development expenses from RMB603.3 million to RMB406.2 million (US\$62.3 million) due to higher validation and testing fees that we incurred in 2019 to prepare for the production of Li ONE, partially offset by an increase in employee compensation expenses from RMB461.9 million to RMB580.2 million (US\$88.6 million) due to share-based compensation expenses recognized related to the stock options granted to employees with service conditions and a

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performance condition related to our initial public offering in the United States as well as our headcount growth. Excluding the impact of share-based compensation expenses, our research and development expenses decreased from RMB1.2 billion in 2019 to RMB1.0 billion (US\$158.6 million) in 2020.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased from RMB689.4 million in 2019 to RMB1.1 billion (US\$170.8 million) in 2020, primarily attributable to (i) an increase in employee compensation from RMB238.4 million to RMB449.1 million (US\$68.5 million) due to increased headcount and share-based compensation expenses recognized related to the stock options granted to employees with service conditions and a performance condition related to our initial public offering in the United States, (ii) an increase in marketing and promotional expenses from RMB176.4 million to RMB264.8 million (US\$40.4 million) due to increased marketing and promotional activities, and (iii) an increase in rental and related expenses from RMB78.9 million to RMB162.9 million (US\$24.9 million) related to the expansion of our network of retail stores and delivery and servicing centers.

Loss from Operations

As a result of the foregoing, the operating loss decreased from RMB1.9 billion in 2019 to RMB669.3 million (US\$102.2 million) in 2020.

Interest Expense

Our interest expense decreased from RMB83.7 million in 2019 to RMB66.9 million (US\$10.2 million) in 2020, primarily attributable to the conversion of convertible promissory notes into preferred shares in July 2019 and the decreased principal of the corporate loan in June 2020.

Investment Income, Net

Our net investment income increased significantly from RMB49.4 million in 2019 to RMB213.6 million (US\$32.6 million) in 2020, primarily attributable to an increase in the scale of our investments in wealth management products.

Share of Loss of Equity Method Investees

Our share of loss of equity method investees decreased significantly from RMB162.7 million in 2019 to RMB2.5 million (US\$384.6 thousand) in 2020. The amount in 2019 was primarily attributable to our equity stake in a joint venture investee, and we did not incur share of loss of that investee in 2020 as the carrying value of that investment had been reduced to zero as of December 31, 2019.

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Foreign Exchange (Loss)/Gain, Net

We recorded net foreign exchange loss of RMB6.7 million (US\$1.0 million) in 2020, compared with net foreign exchange gain of RMB32.0 million in 2019, primarily attributable to fluctuations in foreign exchange rates.

Change in Fair Value of Warrants and Derivative Liabilities

We recorded RMB272.3 million (US\$41.6 million) of fair value gain of warrants and derivative liabilities in 2020, compared with RMB426.4 million of fair value loss of warrants and derivative liabilities in 2019, primarily attributable to the change in the fair value of our company and the decreased possibility of the exercise of warrant and conversion rights of preferred shareholders.

Net Loss

As a result of the foregoing, we incurred net loss of RMB151.7 million (US\$23.1 million) in 2020, compared with net loss of RMB2.4 billion in 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

We began generating revenues in December 2019, when we began making deliveries of Li ONEs. We recorded RMB281.0 million of vehicle sales revenues and RMB3.4 million of other sales and services revenues in 2019.

Cost of Sales

Our cost of sales was RMB284.5 million in 2019, primarily consisting of BOM costs, production costs, and reserves for estimated warranty costs in connection with sales of Li ONEs.

Gross Loss

As a result of the foregoing, we incurred gross loss of RMB0.1 million in 2019.

Research and Development Expenses

Our research and development expenses increased by 47.3% from RMB793.7 million in 2018 to RMB1.2 billion in 2019, primarily attributable to (i) an increase in design and development expenses from RMB423.7 million to RMB603.3 million due to the increase in validation and testing fees as we prepared for and commenced production of Li ONE in 2019, and (ii) an increase in employee compensation expenses from RMB311.2 million to RMB461.9 million in line with the expansion of our research and development department.

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Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased significantly from RMB337.2 million in 2018 to RMB689.4 million in 2019, primarily attributable to (i) an increase in marketing and promotional expenses from RMB35.1 million to RMB176.4 million mainly due to the increased number of test-drive vehicles and showroom vehicles with the expansion of our retail stores, (ii) an increase in employee compensation expenses from RMB171.9 million to RMB238.4 million due to an increase in the number of relevant employees, and (iii) an increase in rental and related expenses from RMB13.7 million to RMB78.9 million due to the expansion of our network of retail stores and delivery and servicing centers.

Loss from Operations

As a result of the foregoing, we incurred an operating loss of RMB1.9 billion in 2019, compared with RMB1.1 billion in 2018.

Interest Expense

Our interest expense increased by 31.8% from RMB63.5 million in 2018 to RMB83.7 million in 2019, primarily attributable to an increase in our indebtedness in 2019 including convertible promissory notes in an aggregate principal amount of US\$25.0 million issued in the first quarter of 2019 and amortized debt discount of secured note payable.

Investment Income, Net

Our net investment income decreased significantly from RMB68.1 million in 2018 to RMB49.4 million in 2019, primarily attributable to a decrease in the scale of our investments in wealth management products, partially offset by an increase in the fair value change of long-term investments.

Share of Loss of Equity Method Investees

Our share of loss of equity method investees increased significantly from RMB35.8 million in 2018 to RMB162.7 million in 2019, primarily attributable to our equity stake in an investee company, or the Investee A. During the year ended December 31, 2019, the Investee A decided to abandon its business, resulting in significant potential impairment loss of certain assets and our share of net loss exceeding the opening carrying value of the investment in Investee A. Therefore, we recognized the share of net loss of Investee A to the extent that the carrying value of the investment in Investee A reduced to zero, which amounted to RMB160.6 million. See Note 13 to our consolidated financial statements included in the Accountant's Report in Appendix I to this prospectus.

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Foreign Exchange (Loss)/Gain, Net

We recorded net foreign exchange gain of RMB32.0 million in 2019, compared with net foreign exchange loss of RMB3.7 million in 2018, primarily attributable to fluctuations in foreign exchange rates in 2019.

Change in Fair Value of Warrants and Derivative Liabilities

We recorded RMB426.4 million of loss from the fair value change of warrants and derivative liabilities in 2019, attributable to an increase in the fair value of our warrants and derivative liabilities driven by the increase in the fair value of our company.

Net Loss

As a result of the foregoing, we incurred net loss of RMB2.4 billion in 2019, compared with RMB1.5 billion in 2018.

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 audited consolidated financial statements included in Appendix I to this prospectus.

| | As of December 31, | | | | As of March 31, | |
|---|-----------------------|------------------|-------------------|------------------|-------------------|------------------|
| | 2018 | 2019 | 2020 | | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | US\$ |
| | <i>(in thousands)</i> | | | | | |
| Total current assets | 2,294,340 | 5,065,839 | 31,391,109 | 4,791,218 | 32,334,910 | 4,935,272 |
| Total non-current assets | 3,486,600 | 4,447,583 | 4,982,167 | 760,426 | 5,409,231 | 825,610 |
| Total assets | 5,780,940 | 9,513,422 | 36,373,276 | 5,551,644 | 37,744,141 | 5,760,882 |
| Total current liabilities | 1,749,373 | 4,679,720 | 4,309,221 | 657,715 | 5,549,605 | 847,036 |
| Total non-current liabilities | 1,228,303 | 252,571 | 2,260,458 | 345,012 | 2,461,876 | 375,755 |
| Total liabilities | 2,977,676 | 4,932,291 | 6,569,679 | 1,002,727 | 8,011,481 | 1,222,791 |
| Total mezzanine equity | 5,199,039 | 10,255,662 | — | — | — | — |
| Total shareholders' (deficit)/equity | (2,395,775) | (5,674,531) | 29,803,597 | 4,548,917 | 29,732,660 | 4,538,091 |
| Total liabilities, mezzanine equity and shareholders' (deficit)/equity | 5,780,940 | 9,513,422 | 36,373,276 | 5,551,644 | 37,744,141 | 5,760,882 |

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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 June 30, | |
|--|-----------------------|------------------|-------------------|------------------|--------------------|------------------|-------------------|------------------|
| | 2018 | 2019 | 2020 | | 2021 | | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | US\$ | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | 70,192 | 1,296,215 | 8,938,341 | 1,364,258 | 6,070,720 | 926,573 | 12,095,920 | 1,846,198 |
| Restricted cash | 25,000 | 140,027 | 1,234,178 | 188,372 | 2,111,642 | 322,300 | 1,731,138 | 264,223 |
| Time deposits and short-term investments | 859,913 | 2,272,653 | 19,701,382 | 3,007,017 | 22,175,797 | 3,384,688 | 22,700,436 | 3,464,763 |
| Trade receivables | — | 8,303 | 115,549 | 17,636 | 114,456 | 17,469 | 119,477 | 18,236 |
| Inventories | 155 | 518,086 | 1,048,004 | 159,957 | 1,383,740 | 211,200 | 1,136,785 | 173,507 |
| Prepayments and other current assets | 1,318,040 | 812,956 | 353,655 | 53,978 | 478,555 | 73,042 | 601,029 | 91,735 |
| Assets held for sale, current | 21,040 | 17,599 | — | — | — | — | — | — |
| Total current assets | 2,294,340 | 5,065,839 | 31,391,109 | 4,791,218 | 32,334,910 | 4,935,272 | 38,384,785 | 5,858,662 |
| Current liabilities: | | | | | | | | |
| Short-term borrowings | 20,000 | 238,957 | — | — | — | — | 425,119 | 64,886 |
| Trade and notes payable | 337,107 | 624,666 | 3,160,515 | 482,389 | 4,311,223 | 658,021 | 5,153,624 | 786,597 |
| Amounts due to related parties | 5,747 | 9,764 | 19,206 | 2,931 | 16,135 | 2,463 | 5,568 | 850 |
| Deferred revenue, current | — | 56,695 | 271,510 | 41,441 | 235,131 | 35,888 | 283,156 | 43,218 |
| Operating lease liabilities, current | 41,904 | 177,526 | 210,531 | 32,133 | 244,962 | 37,389 | 317,097 | 48,398 |
| Finance lease liabilities, current | 66,111 | 360,781 | — | — | — | — | — | — |
| Warrants and derivative liabilities | — | 1,648,690 | — | — | — | — | — | — |
| Accruals and other current liabilities | 1,272,126 | 867,259 | 647,459 | 98,821 | 742,154 | 113,275 | 1,233,555 | 188,277 |
| Convertible debts, current | — | 692,520 | — | — | — | — | — | — |
| Liabilities held for sale, current | 6,378 | 2,862 | — | — | — | — | — | — |
| Total current liabilities | 1,749,373 | 4,679,720 | 4,309,221 | 657,715 | 5,549,605 | 847,036 | 7,418,119 | 1,132,226 |
| Net current assets | 544,967 | 386,119 | 27,081,888 | 4,133,503 | 26,785,305 | 4,088,236 | 30,966,666 | 4,726,436 |

Our net current assets slightly decreased from RMB27.1 billion (US\$4.1 billion) as of December 31, 2020 to RMB26.8 billion (US\$4.1 billion) as of March 31, 2021, primarily due to an increase of RMB1.2 billion in trade and notes payable for raw materials attributable to the expansion of our business, partially offset by (i) the increase of RMB335.7 million in inventories attributable to the expansion of our business, (ii) the increase of RMB484.3 million in cash and cash equivalents, restricted cash and time deposits and short-term investments primarily attributable to the positive net cash flows provided by operating activities, and (iii) the increase of RMB124.9 million in prepayments and other current assets primarily attributable to the increased deductible VAT input and increased prepayments to vendors.

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Our net current assets increased from RMB386.1 million as of December 31, 2019 to RMB27.1 billion (US\$4.1 billion) as of December 31, 2020, primarily due to (i) an increase of RMB17.4 billion in time deposits and short-term investments, (ii) an increase of RMB7.6 billion in cash and cash equivalents, (iii) an increase of RMB1.1 billion in restricted cash, and (iv) a decrease of RMB1.6 billion in warrants and derivative liabilities, partially offset by an increase of trade of RMB2.5 billion in trade and notes payable.

Our net current assets decreased from RMB545.0 million as of December 31, 2018 to RMB386.1 million as of December 31, 2019, primarily due to (i) an increase of RMB1.6 billion in warrants and derivative liabilities, (ii) an increase of RMB692.5 million in convertible debts, current, and (iii) a decrease of RMB505.1 million in prepayments and other current assets in connection with prepayments for raw materials, partially offset by (y) an increase of RMB1.4 billion in time deposits and short-term investments primarily attributable to an increase in redeemable and low-risk investment products and time deposits purchased at major banks in China and overseas, and (z) an increase of RMB1.2 billion in cash and cash equivalents primarily attributable to cash proceeds from our Series B3 and Series C convertible redeemable preferred share financings in 2019.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand, time deposits and highly liquid investments placed with banks or other financial institutions, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less. Our cash and cash equivalents increased from RMB70.2 million as of December 31, 2018 to RMB1.3 billion as of December 31, 2019, primarily due to cash proceeds from our Series B3 and Series C convertible redeemable preferred share financings in 2019, further increased to RMB8.9 billion (US\$1.4 billion) as of December 31, 2020, primarily due to cash proceeds from our Series D convertible redeemable preferred share financing, the initial public offering, and the follow-on offering in the United States, and then decreased to RMB6.1 billion (US\$926.6 million) as of March 31, 2021, primarily due to the increase in restricted cash, time deposit and short-term investments.

Restricted Cash

Restricted cash mainly represents (i) the secured deposits held in designated bank accounts for issuance of letter of credit, bank guarantee and bank acceptance bill; and (ii) the deposits held in designated bank accounts for security of the repayment of the notes payable. Our restricted cash increased from RMB25.0 million as of December 31, 2018 to RMB140.0 million as of December 31, 2019, further to RMB1.2 billion (US\$188.4 million) as of December 31, 2020, and further to RMB2.1 billion (US\$322.3 million) as of March 31, 2021, primarily due to an increase in deposits held in designated bank accounts for the issuance of letter of credit, bank guarantee, and bank acceptance bill.

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Time Deposits and Short-Term Investments

Time deposits are those balances placed with the banks with original maturities longer than three months but less than one year. Short-term investments primarily consisted of investments in financial instruments with variable interest rates and maturity dates within one year. From the cash management and risk control perspective, we diversify our investment portfolios and mainly purchase low risk products from reputable financial institutions and prefer those products with high liquidity. We elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Fair value is estimated based on quoted prices of similar financial products provided by financial institutions at the end of each period. Changes in the fair value are reflected in the consolidated statements of comprehensive loss as “Investment income/(loss), net.” Our time deposits and short-term investments increased from RMB859.9 million as of December 31, 2018 to RMB2.3 billion as of December 31, 2019, further to RMB19.7 billion (US\$3.0 billion) as of December 31, 2020, and further to RMB22.2 billion (US\$3.4 billion) as of March 31, 2021, primarily due to an increase in redeemable and low-risk investment products and time deposits purchased at major banks in China and overseas. We recorded gains related to short-term investments of RMB96.9 million, RMB40.9 million, RMB235.6 million (US\$36.0 million), RMB11.5 million, and RMB158.8 million (US\$24.2 million) for the years ended December 31, 2018, 2019, and 2020 and for the three months ended March 31, 2020 and 2021, respectively.

Trade Receivables

Our trade receivables primarily include amounts of vehicle sales related to government subsidies to be collected from government on behalf of our users. We began making deliveries of Li ONEs in December 2019 and our trade receivable increased from RMB8.3 million as of December 31, 2019 to RMB115.5 million (US\$17.6 million) as of December 31, 2020 due to the increased accumulated vehicle deliveries, and remained stable at RMB114.5 million (US\$17.5 million) as of March 31, 2021 due to the issuance of the circular that made Li ONE no longer eligible for the government subsidy after July 2020.

The following table sets forth an aging analysis of our trade receivable (net of allowance for doubtful debts) as of the dates indicated:

| | As of December 31, | | | As of |
|-------------------------------|-----------------------|--------------|----------------|----------------|
| | 2018 | 2019 | 2020 | March 31, |
| | RMB | RMB | RMB | 2021 |
| | | | | RMB |
| | <i>(in thousands)</i> | | | |
| Within 3 months | – | 8,303 | 10,429 | 7,423 |
| Between 3 months and 6 months | – | – | 18,914 | 3,888 |
| Between 6 months and 1 year | – | – | 77,903 | 65,767 |
| More than 1 year | – | – | 8,303 | 37,378 |
| Total | – | 8,303 | 115,549 | 114,456 |

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Trade receivables related to government subsidies as of each period end presented are due in the late 2021 and expected to be collectively collected in 2022 according to the relevant policies and practice, as only models with cumulative deliveries of more than 10,000 are eligible for the application of government subsidies clearance, which may take more than a year to process. For the vehicles issued with license plates from our commencement of deliveries in 2019 to April 22, 2020, we are eligible to receive RMB10,000 per vehicle. For the vehicles issued with license plates from April 23 to July 22, 2020, we are eligible to receive RMB8,500 per vehicle. The following table sets forth a breakdown of the government subsidies we expect to collect:

| | Number of vehicles issued with license plates | Amount of government subsidies per vehicle | Total government subsidies to be collected |
|--------------------------------|--|---|---|
| | | | <i>(RMB in thousands)</i> |
| From 2019 to April 22, 2020 | 3,459 | 10.0 | 34,590 |
| From April 23 to July 22, 2020 | 8,072 | 8.5 | 68,612 |
| Total | <u>11,531</u> | <u>—</u> | <u>103,202</u> |

We recorded credit losses of RMB315 thousand for trade receivable as of March 31, 2021, based on expected credit loss approach. We believe that there is no recoverability issue for trade receivables aged over one year.

Inventories

Our inventories primarily included vehicles ready for sales, raw materials, work in process, and supplies. Our inventories increased from RMB155 thousand as of December 31, 2018 to RMB518.1 million as of December 31, 2019, further to RMB1.0 billion (US\$160.0 million) as of December 31, 2020, and further to RMB1.4 billion (US\$211.2 million) as of March 31, 2021, primarily due to the expansion of our business.

The turnover days of our inventories were 36.2 days in 2020 and 37.0 days in the first quarter of 2021, which are derived by dividing the arithmetic mean of the opening and closing balance of inventories for the relevant period by cost of sales and multiplying by the numbers of days for the given year or period.

As of December 31, 2018, 2019, and 2020 and March 31, 2021, 99.5% of our inventory balance was less than one year. As of June 30, 2021, RMB1.3 billion, or 96.5%, of our inventory balance as of March 31, 2021 had been sold or utilized.

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Prepayments and Other Current Assets

Prepayments and other current assets consist of deductible VAT input, prepayments to vendors, loan receivable from Lifan Holdings, receivable from Lifan Passenger Vehicle, prepaid rental and deposits, and others. Our prepayments and other current assets decreased from RMB1.3 billion as of December 31, 2018 to RMB813.0 million as of December 31, 2019, primarily due to the repayment of loan to Lifan Holdings and the transfer-out of receivable from Lifan Passenger Vehicle with the disposal of Chongqing Zhizao Automobile Co., Ltd., or Chongqing Zhizao, further to RMB353.7 million (US\$54.0 million) as of December 31, 2020, primarily due to decreased deductible VAT input with increased vehicle sales and decreased prepayments for raw materials, and then increased to RMB478.6 million (US\$73.0 million) as of March 31, 2021, primarily due to increased deductible VAT input and increased payments to vendors.

Short-term Borrowings

Short-term borrowings consist of secured notes payable, secured borrowings, and unsecured bank loans. Our short-term borrowings increased from RMB20.0 million as of December 31, 2018 to RMB239.0 million as of December 31, 2019, primarily due to the increase of secured notes payable of RMB113.9 million, the secured borrowing of RMB94.6 million from the failed sales and leaseback transaction of Changzhou Production Base II and the unsecured bank loan of RMB30.0 million, and then decreased to zero as of December 31, 2020 and March 31, 2021, primarily due to the repayment of the secured notes payable and the unsecured bank loan and the reclassification of the secured borrowing to the non-current liabilities due to the maturity extension in June 2020.

Finance Lease Liabilities, Current

Finance lease liabilities, current as of December 31, 2018 were derived from certain non-transferable finance lease contracts from the acquisition of Chongqing Zhizao, which were entered into before the acquisition. These liabilities were transferred out with the disposal of Chongqing Zhizao in 2019. Finance lease liabilities, current as of December 31, 2019 represented the payable for the lease of Changzhou Production Base with an option to purchase it before December 31, 2020, which were reclassified to non-current liabilities in 2020 due to the extension of the purchase option to December 31, 2022.

Warrants and Derivative Liabilities

Warrants and derivative liabilities as of December 31, 2019 were derived from the warrants and conversion feature related to preferred shares and accounted for using fair value. The carrying value of these warrants and derivative liabilities decreased to zero as of December 31, 2020, mainly due to the exercise of conversion rights by the preferred shareholders upon the completion of the initial public offering in the United States.

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Convertible Debts, Current

Convertible debts, current as of December 31, 2019 represented the convertible loan from Wunan with a maturity date within one year, which were reclassified to non-current liabilities in 2020 because the maturity date was extended to June 30, 2022 in accordance with the supplement agreements with Wunan in June 2020. For more details, see Note 17 to our consolidated financial statements included in the Accountant's Report in Appendix I to this prospectus.

Trade and Notes Payable

Trade and notes payable consist of trade payable for raw materials and notes payable incurred in the purchase of raw materials and long-term assets. Our trade and notes payable increased from RMB337.1 million as of December 31, 2018 to RMB624.7 million as of December 31, 2019, further to RMB3.2 billion (US\$482.4 million) as of December 31, 2020, and further to RMB4.3 billion (US\$658.0 million) as of March 31, 2021, primarily due to an increase in trade payable for raw materials.

Accruals and Other Current Liabilities

Accruals and other current liabilities primarily consist of salaries and benefits payable, payables for acquisition of Chongqing Zhizao, payables for purchase of property, plant and equipment, payables for research and development expenses, tax payable and other payables. Our accruals and other current liabilities decreased from RMB1.3 billion as of December 31, 2018 to RMB867.3 million as of December 31, 2019, primarily due to payment of the consideration for the acquisition of Chongqing Zhizao in 2019, further decreased to RMB647.5 million (US\$98.8 million) as of December 31, 2020, primarily due to a decrease in payables for purchase of property, plant, and equipment, and further increased to RMB742.2 million (US\$113.3 million) as of March 31, 2021, primarily due to an increase in payables for purchase of property, plant and equipment, foreign exchange forwards and options and other payables.

Operating Lease Assets and Liabilities

Our operating leases mainly consist of land use rights and leases of offices, retail stores, and delivery and servicing centers. With respect to the operating leases, assets represent our right to use underlying assets for the lease terms and lease liabilities represent our obligation to make lease payments arising from the leases. Our operating lease right-of-use assets, net increased from RMB365.5 million as of December 31, 2018, to RMB510.2 million as of December 31, 2019, further to RMB1.3 billion (US\$194.9 million) as of December 31, 2020, and further to RMB1.3 billion (US\$203.3 million) as of March 31, 2021, while our operating lease liabilities, non-current increased from RMB223.3 million as of December 31, 2018, to RMB241.1 million as of December 31, 2019, further to RMB1.0 billion (US\$156.5 million) as of December 31, 2020, and further to RMB1.1 billion (US\$161.2 million) as of March 31,

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2021, primarily due to our business expansion, including opening of new headquarters and accelerated expansion of our retail stores and delivery and servicing centers in 2020 following the volume production of Li ONE.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2021, we had RMB30.4 billion in cash and cash equivalents, restricted cash, time deposits and short-term investments. Our cash and cash equivalents primarily consist of cash on hand, time deposits and highly-liquid investments placed with banks or other financial institutions, which are unrestricted for withdrawal or use and have original maturities of three months or less.

Our operating cash flow for the year ended December 31, 2020 was RMB3.1 billion (US\$479.2 million), compared with negative RMB1.3 billion and RMB1.8 billion for the years ended December 31, 2018 and 2019, respectively. Our operating cash flow for the three months ended March 31, 2021 was RMB926.3 million (US\$141.4 million), compared with negative RMB63.0 million for the three months ended March 31, 2020. After this offering, we may decide to enhance our liquidity position or increase our cash reserve for future operations and investments through additional financing. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increasing fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Working Capital Sufficiency Statement

In view of the positive turning of our operating cash flows, increase in net current assets, and gradual narrow-down of the losses from operations during the Track Record Period, based on our cash flow projections and taking into account the cash and cash equivalents on hand as of the date of this prospectus and the financial resources available to us, including internally generated funds and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital for our present requirement, which is, for at least the next 12 months from the date of this prospectus.

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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, | | |
|---|---------------------------------|-------------|--------------|-------------|--------------------------------------|-------------|-----------|
| | 2018 | 2019 | 2020 | | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | |
| Net cash flow (used in)/provided by operating activities before changes in operating assets and liabilities | (970,437) | (1,629,084) | 65,242 | 9,958 | (166,893) | 157,022 | 23,967 |
| Changes in operating assets and liabilities | (310,443) | (153,561) | 3,067,838 | 468,244 | 103,309 | 767,433 | 117,133 |
| Interest paid | — | 330 | 6,576 | 1,004 | 429 | 1,888 | 288 |
| Net cash (used in)/provided by continuing operating activities | (1,280,880) | (1,782,315) | 3,139,656 | 479,206 | (63,155) | 926,343 | 141,388 |
| Net cash (used in)/provided by discontinued operating activities | (65,925) | (11,395) | 148 | 23 | 148 | — | — |
| Net cash (used in)/provided by operating activities | (1,346,805) | (1,793,710) | 3,139,804 | 479,229 | (63,007) | 926,343 | 141,388 |
| Net cash used in investing activities | (191,512) | (2,574,836) | (18,737,725) | (2,859,935) | (181,417) | (2,892,396) | (441,466) |
| Net cash provided by/(used by) financing activities | 1,108,658 | 5,655,690 | 24,710,697 | 3,771,589 | (135,977) | — | — |
| Effects of exchange rate changes on cash, cash equivalents, and restricted cash | 3,299 | 53,722 | (376,646) | (57,487) | 4,660 | (24,104) | (3,679) |
| Net (decrease)/increase in cash, cash equivalents, and restricted cash | (426,360) | 1,340,866 | 8,736,130 | 1,333,396 | (375,741) | (1,990,157) | (303,757) |
| Cash, cash equivalents, and restricted cash at the beginning of the year/period | 521,883 | 95,523 | 1,436,389 | 219,234 | 1,436,389 | 10,172,519 | 1,552,630 |
| Cash, cash equivalents, and restricted cash at the end of the year/period | 95,523 | 1,436,389 | 10,172,519 | 1,552,630 | 1,060,648 | 8,182,362 | 1,248,873 |

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Operating Activities

Net cash provided by operation activities for the three months ended March 31, 2021 was RMB926.3 million (US\$141.4 million), primarily attributable to our net loss of RMB360.0 million (US\$54.9 million) adjusted for (i) non-cash items of RMB518.9 million (US\$79.2 million), which primarily consisted of share-based compensation expenses, foreign exchange loss, and depreciation and amortization, and (ii) a net decrease in operating assets and liabilities of RMB767.4 million (US\$117.1 million). The net decrease in operating assets and liabilities was primarily the result of an increase in trade and notes payable of RMB1.1 billion (US\$162.7 million), an increase of inventories of RMB330.3 million (US\$50.4 million), and an increase in prepayments and other current assets of RMB124.8 million (US\$19.0 million).

The increase of trade and notes payable was primarily attributable to the increased purchase of raw materials as a result of our business expansion and the increased number of vehicles we produced in the period. The increase in inventories was primarily attributable to the increased finished products and raw materials due to the increased demands. The increase in prepayments and other current assets was primarily attributable to the increased marketing activities and increased deductible value-added tax.

Net cash provided by operation activities for the year ended December 31, 2020 was RMB3.1 billion (US\$479.2 million), primarily attributable to our net loss of RMB151.7 million (US\$23.1 million) adjusted for (i) non-cash items of RMB237.8 million (US\$36.3 million), which primarily consisted of depreciation and amortization and share-based compensation expenses, partially offset by fair value gain of warrants and derivative liabilities, and (ii) a net decrease in operating assets and liabilities of RMB3.1 billion (US\$468.2 million). The net decrease in operating assets and liabilities was primarily the result of an increase in trade and notes payable of RMB2.5 billion (US\$386.2 million), a decrease in prepayments and other current assets of RMB459.3 million (US\$70.1 million), an increase of inventories of RMB516.9 million (US\$78.9 million), and an increase in trade receivables of RMB107.2 million (US\$16.4 million).

The increase in trade and notes payable was primarily attributable to the increased purchase of raw materials as a result of our business expansion and the increased number of vehicles we produced in the period. The decrease in prepayments and other current assets was primarily attributable to the decreased deductible value-added tax due to the increased accumulated vehicle sales and decreased prepayments for raw materials due to our enhanced bargaining power with suppliers. The increase in inventories was primarily attributable to the increased number of finished products due to higher demands for our vehicles. The increase in trade receivable was attributable to the increased government subsidies to be collected on behalf of our users in connection with our increased accumulated vehicles sales.

Net cash used in operating activities for the year ended December 31, 2019 was RMB1.8 billion, primarily attributable to our net loss of RMB2.4 billion adjusted for (i) non-cash items of RMB789.1 million, which primarily consisted of changes in fair value of warrants and derivative liabilities, share of loss of equity method investees, and depreciation and amortization and (ii) a net increase in operating assets and liabilities of RMB153.6 million. The net increase in operating assets and liabilities was primarily the result of an increase in inventories of RMB510.5 million, an increase in prepayments and other current assets of

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RMB442.7 million, an increase in trade and notes payable of RMB602.3 million, and an increase in accruals and other current liabilities of RMB116.3 million, and an increase in deferred revenue of RMB62.6 million.

The increase in inventories was primarily attributable to the increased amount of raw materials and finished products as we began volume production and vehicle deliveries in the fourth quarter of 2019. The increase in trade and notes payable was primarily attributable to the increased purchase of raw materials. The increase in prepayments and other current assets was primarily attributable to the increased prepayments for raw materials and increased deductible value-added tax. The increase in accruals and other current liabilities was primarily attributable to the increased operating expenditure and increased refundable deposits of unfulfilled orders. The increase in deferred revenue of RMB62.6 million was primarily attributable to the transaction price allocated to unsatisfied performance obligation and increased non-refundable deposits of unfulfilled orders.

Net cash used in operating activities for the year ended December 31, 2018 was RMB1.3 billion, primarily attributable to our net loss of RMB1.5 billion adjusted for (i) non-cash items of RMB194.9 million, which primarily consisted of depreciation and amortization, interest expense and unrealized investment income and share of loss of equity method investees and (ii) a net increase in operating assets and liabilities of RMB310.4 million. The net increase in operating assets and liabilities was primarily the result of an increase in prepayments and other current assets of RMB200.4 million, an increase in other non-current assets of RMB116.5 million, a net increase of RMB98.9 million in operating lease assets and liabilities, and an increase in accruals and other liabilities of RMB161.7 million.

The increase in prepayments and other current assets was primarily attributable to the increased deductible value-added tax with increased capital and operating expenditures while no revenues were recognized in 2018. The increase in other non-current assets was primarily attributable to the increased payment of supply deposits and rental deposits. The net increase in operating lease assets and liabilities was primarily attributable to the lease payment of land use rights. The increase in accruals and other liabilities was primarily attributable to the increased research and development expenses and other expenses.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2021 was RMB2.9 billion (US\$441.5 million). This was primarily attributable to (i) our net investment in short-term investments and time deposits of RMB2.5 billion (US\$387.1 million) and (ii) purchase of property, plant and equipment and intangible assets of RMB356.1 million (US\$54.4 million).

Net cash used in investing activities for the year ended December 31, 2020 was RMB18.7 billion (US\$2.9 billion). This was primarily attributable to (i) our net investment in short-term investments and time deposits of RMB18.0 billion (US\$2.7 billion) and (ii) purchase of property, plant and equipment and intangible assets of RMB675.2 million (US\$103.1 million).

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Net cash used in investing activities for the year ended December 31, 2019 was RMB2.6 billion. This was primarily attributable to (i) our net investment in short-term investments and time deposits of RMB1.4 billion, (ii) purchases of mold and tooling, production facilities, and leasehold improvements of RMB952.9 million, (iii) payments of RMB560.0 million related to the acquisition of Chongqing Zhizao Automobile Co., Ltd., and (iv) equity investments of RMB98.0 million, partially offset by the net proceeds of RMB490.0 million from the collection of the loan to Chongqing Lifan Holdings Ltd.

Net cash used in investing activities for the year ended December 31, 2018 was RMB191.5 million. This was primarily attributable to (i) purchases of factory buildings, equipment, tooling and leasehold improvements of RMB970.7 million, (ii) a loan to Chongqing Lifan Holdings Ltd. of RMB490.0 million, and (iii) equity investments of RMB213.3 million, partially offset by the net proceeds of RMB1.5 billion from the purchase and withdrawal of short-term investments.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2021 was zero.

Net cash provided by financing activities for the year ended December 31, 2020 was RMB24.7 billion (US\$3.8 billion), primarily attributable to (i) net proceeds of RMB11.0 billion (US\$1.7 billion) from our initial public offering in the United States and concurrent private placements, (ii) net proceeds of RMB10.0 billion (US\$1.5 billion) from our follow-on offering, and (iii) proceeds of RMB3.8 billion (US\$584.5 million) from the issuance of Series D convertible redeemable preferred shares, partially offset by the repayment of short-term borrowings of RMB144.7 million (US\$22.1 million).

Net cash provided by financing activities for the year ended December 31, 2019 was RMB5.7 billion, primarily attributable to (i) proceeds of RMB101.2 million, RMB1.5 billion, and RMB3.6 billion from the collection of receivables from holders of Series B-2 convertible redeemable preferred shares, the issuance of the Series B-3 convertible redeemable preferred shares, and issuance of the Series C convertible redeemable preferred shares, respectively, and (ii) proceeds of RMB233.3 million and RMB168.1 million from the issuance of borrowings and convertible debts, respectively.

Net cash provided by financing activities for the year ended December 31, 2018 was RMB1.1 billion, primarily attributable to (i) proceeds of RMB285.0 million and RMB688.8 million from our collection of receivable from holders of Series B-1 convertible redeemable preferred shares and issuance of the Series B-2 convertible redeemable preferred shares, respectively, and (ii) proceeds of RMB150.0 million from our issuance of convertible debts.

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CAPITAL EXPENDITURES

Our capital expenditures were RMB970.7 million, RMB952.9 million, RMB675.2 million (US\$103.1 million), RMB122.1 million, and RMB356.1 million (US\$54.4 million) in 2018, 2019, and 2020 and for the three months ended March 31, 2020 and 2021, respectively. In these periods, our capital expenditures were primarily used for the acquisition of factory buildings, equipment, tooling and leasehold improvements mainly for retail stores and delivery and servicing centers and laboratories. We intend to fund our future capital expenditures with net proceeds from equity and debt offerings, loan financings, existing cash on hand, and cash from sales of vehicles. We expect that our level of capital expenditures will be significantly affected by user demand for our products and services. The fact that we have a limited operating history means that we have limited historical data on the demand for our products and services. As a result, our future capital requirements may be uncertain and actual capital requirements may be different from those we currently anticipate. To the extent the proceeds of this offering and cash from our business activities are insufficient to fund future capital requirements, we may need to seek equity or debt financing in the future. We will continue to make capital expenditures to support the expected growth of our business.

RECONCILIATION BETWEEN U.S. GAAP AND IFRS

It should be noted that the consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. Preferred shares, convertible debts, leasing accounting, and financial assets at fair value through profit or loss are the four material reconciling items.

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The effect of material differences between our historical financial information prepared under U.S. GAAP and IFRS are as follows:

Reconciliation of net loss attributable to ordinary shareholders of Li Auto Inc. in the consolidated statements of comprehensive loss

| | For the Year Ended December 31, | | | For the Three Months Ended March 31, | |
|--|---------------------------------|--------------------|---------------------|--------------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | (in thousands) | | | (unaudited) | |
| Net loss attributable to ordinary shareholders of Li Auto Inc. as reported under U.S. GAAP | (1,849,638) | (3,281,607) | (791,985) | (233,732) | (359,967) |
| IFRS adjustments | | | | | |
| Preferred Shares | 330,125 | (1,054,423) | (29,965,125) | (343,126) | — |
| Convertible debts | 13,523 | (23,752) | 1,170 | (871) | — |
| Leases | (6,127) | (11,239) | (16,911) | (2,483) | (2,700) |
| Investments measured at fair value | 6,205 | — | 13,399 | — | (12,198) |
| Share-based compensation | — | (117,328) | 117,328 | (4,839) | — |
| Issuance costs | — | (9,488) | (28,737) | (3,665) | (6,498) |
| Net loss attributable to ordinary shareholders of Li Auto Inc. as reported under IFRS | (1,505,912) | (4,497,837) | (30,670,861) | (588,716) | (381,363) |

Reconciliation of total shareholders' (deficit)/equity of the Group in the consolidated balance sheets and total shareholders' (deficit)/equity of the parent company in the parent company only balance sheets

| | As of December 31, | | | As of March 31, |
|--|--------------------|--------------------|-------------------|-------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| | (in thousands) | | | |
| Total shareholders' (deficit)/equity as reported under U.S. GAAP | (2,395,775) | (5,674,531) | 29,803,597 | 29,732,660 |
| IFRS adjustments | | | | |
| Preferred Shares | 297,058 | (750,037) | — | — |
| Convertible debts | 13,018 | (10,734) | — | — |
| Leases | (10,177) | (21,416) | (38,327) | (41,027) |
| Investments measured at fair value | 6,205 | 6,205 | 19,604 | 7,406 |
| Issuance costs | — | (9,488) | — | (6,498) |
| Total shareholders' (deficit)/equity as reported under IFRS | (2,089,671) | (6,460,001) | 29,784,874 | 29,692,541 |

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Preferred Shares

Under U.S. GAAP, SEC guidance provides for mezzanine-equity (temporary equity) category in addition to the financial liability and permanent equity categories. The purpose of this “in-between” category is to indicate that a security may not be a permanent part of equity. We classified the preferred shares as mezzanine equity in the consolidated balance sheets and are recorded initially at fair value, net of issuance costs. We recognized accretion to the respective redemption value of the preferred shares over the period starting from issuance date to the earliest redemption date.

Under IFRS, there is no concept of mezzanine or temporary equity classification. We designated the preferred shares as financial liabilities at fair value through profit or loss, which are initially recognized at fair value. Subsequent to initial recognition, the amounts of changes in fair value of the preferred shares that were attributed to changes in credit risk of the preferred shares were recognized in other comprehensive income, and the remaining amounts of changes in fair value of the preferred shares were recognized in the profit or loss.

Convertible debts

Under U.S. GAAP, the convertible debts were measured at amortized cost, with any difference between the initial carrying value and the repayment amount recognized as interest expenses using the effective interest method over the period from the issuance date to the maturity date.

Under IFRS, our convertible debts were designated as at fair value through profit or loss such that the convertible debts were initially recognized at fair values. Subsequent to initial recognition, we considered the amounts of changes in fair value of the convertible debts that were attributed to changes in credit risk of the convertible debts recognized in other comprehensive income were insignificant. Therefore, the amounts of changes in fair value of the convertible debts to be recognized in the profit or loss.

Leases

Under U.S. GAAP, the amortization of the right-of-use assets and interest expense related to the lease liabilities are recorded together as lease expense to produce a straight-line recognition effect in the income statement.

Under IFRS, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured on the basis that the lease liabilities are measured at amortized cost.

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Investments measured at fair value

Under U.S. GAAP, convertible redeemable preferred shares and ordinary shares with preferential rights issued by privately-held companies without readily determinable fair values could elect an accounting policy choice. We elect the measurement alternative to record these equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes.

Under IFRS, these investments were classified as financial assets at fair value through profit or loss and are measured at fair value with changes in fair value recognized through profit or loss. Fair value changes of these long-term investments were recognized in the profit or loss.

Share-based compensation

Under U.S. GAAP, awards with performance targets met during the service period upon such as the fulfillment of a qualified successful IPO is a performance vesting condition. The fair value of the awards should not incorporate the probability of the condition vesting, but rather are recognized only when it is probable to achieve the performance condition. The cumulative share-based compensation expenses for the share options that have satisfied the service condition were recorded for the year ended December 31, 2020.

Under IFRS, the cumulative share-based compensation expenses for the share options that have satisfied the service condition up to December 31, 2019 and March 31, 2020, were recorded for the year ended December 31, 2019 and for the three months ended March 31, 2020, respectively, when it became more likely than not to achieve the performance condition in relation to the successful IPO.

Issuance costs

Under U.S. GAAP, special incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering, shown in equity as a deduction from the proceeds.

Under IFRS, such issuance costs apply a different criteria for capitalization when the listing involves both existing shares and a concurrent issuance of our new shares in the capital market, and were allocated to proportionately between our existing and new shares. As a result, we recorded issuance costs associated with the listing of existing shares in the profit or loss.

INDEBTEDNESS

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

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| | As of December 31, | | | | As of March 31, | | As of June 30, | |
|--------------------------------|-----------------------|------------------|------------------|----------------|--------------------|----------------|------------------|------------------|
| | 2018 | 2019 | 2020 | | 2021 | | 2021 | |
| | RMB | RMB | RMB | US\$ | RMB | US\$ | RMB | US\$ |
| | <i>(in thousands)</i> | | | | <i>(unaudited)</i> | | | |
| Current: | | | | | | | | |
| Short-term borrowings | 20,000 | 238,957 | — | — | — | — | 425,119 | 64,886 |
| Convertible debts, current | — | 692,520 | — | — | — | — | — | — |
| Lease liabilities | 108,015 | 538,307 | 210,531 | 32,133 | 244,962 | 37,389 | 317,097 | 48,398 |
| Sub-total | 128,015 | 1,469,784 | 210,531 | 32,133 | 244,962 | 37,389 | 742,216 | 113,284 |
| Non-current: | | | | | | | | |
| Long-term borrowings | — | — | 511,638 | 78,091 | 518,631 | 79,159 | 100,604 | 15,355 |
| Convertible debts, non-current | 644,602 | — | — | — | — | — | 5,461,458 | 833,581 |
| Lease liabilities | 583,701 | 241,109 | 1,392,136 | 212,481 | 1,428,485 | 218,029 | 1,600,532 | 244,289 |
| Sub-total | 1,228,303 | 241,109 | 1,903,774 | 290,572 | 1,947,116 | 297,188 | 7,162,594 | 1,093,225 |
| Total | 1,356,318 | 1,710,893 | 2,114,305 | 322,705 | 2,192,078 | 334,577 | 7,904,810 | 1,206,509 |

As of June 30, 2021, the total amount of our unutilized bank facilities was RMB2.6 billion (US\$401.4 million), which could be utilized for letters of credit and bankers' acceptance. Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of June 30, 2021.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any off-balance sheet financial guarantees or other off-balance sheet commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity, or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk, or credit support to us or engages in leasing, hedging, or product development services with us.

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MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. The amounts due to related parties as of December 31, 2018, 2019, and 2020 and March 31, 2021 are all trade in nature. For more details about our related party transactions during the Track Record Period, see Note 30 to our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

HOLDING COMPANY STRUCTURE

Li Auto Inc. is a holding company with no material operations of its own. We conduct our operations through our PRC subsidiaries and our VIEs in China. As a result, our ability to pay dividends depends significantly upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under the PRC law, each of our subsidiaries and our VIEs in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our wholly foreign-owned subsidiaries in China may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at its discretion, and each of our VIEs may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

INFLATION

To date, inflation in China has not materially impacted our results of operations. According to the PRC National Bureau of Statistics, the year-over-year percent changes in the consumer price index for December 2018, 2019, and 2020 were increases of 1.9%, 4.5%, and 0.2%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future. For example, certain operating expenses, such as employee compensation and rental and related expenses for office, retail stores and delivery and servicing centers may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Our expenditures are mainly denominated in Renminbi and, therefore, we are exposed to risks related to movements between Renminbi and U.S. dollars. Our exposure to U.S. dollars exchange rate fluctuation arises from the Renminbi-denominated cash and cash equivalents, restricted cash, time deposits, and short-term investments held by us and our subsidiaries whose functional currency is U.S. dollars, and the U.S. dollar-denominated cash and cash equivalents, restricted cash, time deposits, and short-term investments held by our subsidiaries whose functional currency is Renminbi. We enter into hedging transactions in an effort to reduce our exposure to foreign currency exchange risk when we deem appropriate. During the three months ended March 31, 2021, we entered into foreign exchange forwards and options contracts. As of March 31, 2021, the carrying amounts of derivative instrument assets were RMB8.2 million and the carrying amounts of derivative instrument liabilities were RMB25.5 million. These derivative instruments were not qualified for hedge accounting. In addition, the value of your investment in our Class A ordinary shares and the ADSs will be affected by the exchange rate between U.S. dollars and Renminbi because the value of our business is effectively denominated in Renminbi, while our Class A ordinary shares and the ADSs will be traded in Hong Kong dollars and U.S. dollars, respectively.

The value of Renminbi against U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of Renminbi to U.S. dollars. Following the removal of the U.S. dollar peg, Renminbi appreciated over 20% against U.S. dollars over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between Renminbi and U.S. dollars remained within a narrow band. Since June 2010, the PRC government has allowed Renminbi to appreciate slowly against U.S. dollars again, and it has appreciated over 10% since June 2010. On August 11, 2015, the People's Bank of China announced plans to improve the central parity rate of Renminbi against U.S. dollars by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the People's Bank of China with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. Effective from October 1, 2016, the International Monetary Fund added Renminbi to its Special Drawing Rights currency basket. Such change and additional future changes may increase volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. Accordingly, it is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and U.S. dollars in the future.

To the extent that we need to convert U.S. dollars or other currencies into Renminbi for our operations, appreciation of Renminbi against U.S. dollars would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert

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Renminbi into U.S. dollars or other currency for the purpose of making payments to suppliers or for dividends on our Class A ordinary shares or ADSs or for other business purposes, appreciation of U.S. dollars against Renminbi would have a negative effect on the U.S. dollar amounts available to us.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and wealth management products. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in market interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure.

We may invest the net proceeds that we receive from our offerings in interest-earning instruments. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

A list of recently issued accounting pronouncements that are relevant to us is included in Note 3 to our consolidated financial statements included in the Accountant's Report in Appendix I to this prospectus.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the Global Offering on our net tangible assets as of March 31, 2021 as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our net tangible assets had the Global Offering been completed as of March 31, 2021 or at any future date. It is prepared based on our consolidated net assets as of March 31, 2021 as set forth in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. No adjustment has been made to reflect any trading result or other transactions of us entered into subsequent to March 31, 2021. In April 2021, we issued convertible senior notes in an aggregate principal amount of US\$862.5 million due 2028 with an interest rate of 0.25% per annum. We have adopted ASU 2020-06 from January 1, 2021 and as such we do not expect to bifurcate the equity component of the notes on the consolidated balance sheet resulting from the option to settle the notes entirely or partially in cash upon conversion. Accordingly, the issuance of convertible senior notes is not expected to have any material impact to our net tangible assets. Our unaudited pro forma adjusted net tangible assets does not form part of the Accountant's Report in Appendix I to this document.

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| Audited Consolidated Net Tangible Assets of the Group Attributable to Ordinary Shareholders of the Company as of March 31, 2021 | Estimated Net Proceeds from the Global Offering | Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Ordinary Shareholders of the Company as of March 31, 2021 | Unaudited Pro Forma Adjusted Net Tangible Assets per Share | Unaudited Pro Forma Adjusted Net Tangible Assets per ADS | Unaudited Pro Forma Adjusted Net Tangible Assets per Share | Unaudited Pro Forma Adjusted Net Tangible Assets per ADS |
|--|--|---|--|--|--|--|
| RMB'000 (Note 1) | RMB'000 (Note 2) | RMB'000 | RMB (Note 3) | RMB (Note 4) | HK\$ (Note 5) | HK\$ (Note 5) |
| Based on the Maximum Offer Price of HK\$150.00 per Share | | | | | | |
| 29,048,105 | 12,389,708 | 41,437,813 | 21.70 | 43.40 | 25.75 | 51.50 |

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the ordinary shareholders of the Company as of March 31, 2021 is extracted from the Accountant's Report in Appendix I to this document, and is based on our audited consolidated net assets as of March 31, 2021 of RMB29,732,660,000, adjusted for net intangible assets as of March 31, 2021 of RMB684,555,000.
- (2) The estimated net proceeds from the Global Offering are based on 100,000,000 Shares and the indicative offer price of HK\$150.00 per Offer Share, after deduction of underwriting commissions and discounts and estimated offering expenses payable by us subsequent to March 31, 2021. However, this does not take into account of any allotment and issuance of Shares upon the exercise of the Over-allotment Option, any Shares to be granted under the Share Incentive Plans.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,909,921,322 Shares (for the purpose of this unaudited pro forma financial information excluding the 108,557,400 Class A Ordinary Shares issued pursuant to the 2021 Plan and 33,366,988 treasury shares issued in February 2021 to satisfy the future exercise of share options under the 2019 Plan and the 2020 Plan) were in issue assuming that the Global Offering had been completed on March 31, 2021. However, this does not take into account of any allotment and issuance of Shares upon the exercise of the Over-allotment Option, any Shares to be granted under the Share Incentive Plans.
- (4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents two Shares.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.0000 to HK\$1.1866. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work that our Directors consider appropriate and after due and careful consideration, the 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, 2021, being the end date of the periods reported on in the Accountant's Report included in Appendix I to this document, and there is no event since March 31, 2021 that would materially affect the information as set out in the Accountant's Report included 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.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering, Mr. Li, our Founder, Chairman of the Board, executive Director and Chief Executive Officer, will be interested in and will control, through his intermediaries, an aggregate of 355,812,080 Class B Ordinary Shares and 108,557,400 CEO Award Shares (which are Class A Ordinary Shares with one vote per share). Assuming (i) the Over-allotment Option is not exercised, (ii) none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares, (iii) no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, and (iv) without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans, Mr. Li's shareholding represents (a) approximately 22.63% of our issued Shares; (b) approximately 69.59% of the voting rights in our Company with respect to shareholder resolutions relating to matters other than the Reserved Matters and (c) approximately 18.63% with respect to shareholder resolutions relating to Reserved Matters. Mr. Li holds his interests in the Company through Amp Lee Ltd., which is wholly owned by Cyric Point Enterprises Limited, the entire interest of which is in turn held by a trust that was established by Mr. Li (as the settlor) for the benefit of himself and his family. Therefore Mr. Li will be a Controlling Shareholder of our Company after the Listing.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and its close associates after the Listing.

Management Independence

Our business is managed and conducted by our Board and senior management. Upon Listing, our Board will consist of eight Directors comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. For more information, please see the section headed "Directors and Senior Management."

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because:

- (a) each Director is aware of their fiduciary duties as a director which require, among others, that they act for the benefit and in the interest of our Company and do not allow any conflict between their duties as a Director and their personal interests;
- (b) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is(are) required to declare the nature of such interest before voting at the relevant Board meeting; and
- (e) we have adopted other corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders, as detailed in “—Corporate governance measures.”

Based on the above, our Directors believe that our business is managed independently of our Controlling Shareholders.

Operational Independence

Our Group is not operationally dependent on the Controlling Shareholders. Our Company (through our subsidiaries and Consolidated Affiliated Entities) holds all relevant licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

No loans or guarantees provided by, or granted to, our Controlling Shareholders or its associates will be outstanding as of the Listing Date.

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance, on our Controlling Shareholders and their close associates after the Listing.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company and our Directors are committed to upholding and implementing the highest standards of corporate governance and recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority Shareholders.

In light of this, the Company has established a nominating and corporate governance committee pursuant to Rule 8A.30 which has adopted terms of reference consistent with Code Provision D.3.1 of Appendix 14 to, and Rule 8A.30 of, the Listing Rules. The members of the nominating and corporate governance committee are independent non-executive Directors with experience in overseeing corporate governance related functions of private and listed companies. The primary duties of the nominating and corporate governance committee are to ensure that the Company is operated and managed for the benefit of all shareholders and to ensure the Company's compliance with the Listing Rules and safeguards relating to its WVR structure.

Under the Articles of Association, extraordinary general meetings of the Company may be convened on the written requisition of any one or more members holding, as at the date of deposit of the requisition, in aggregate shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. In addition, pursuant to the Shareholder communication policy to be adopted by the Company upon Listing, Shareholders are encouraged to put governance related matters to the Directors and to the Company directly in writing.

We will also adopt the following corporate governance measures to resolve actual or potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders' meeting is held pursuant to the Listing Rules to consider proposed transactions or arrangements in which our Controlling Shareholders or any of their associates have a material interest, our Controlling Shareholder(s) shall abstain from voting and their votes shall not be counted;
- (b) our Company has established internal control mechanisms to identify connected transactions, and we will comply with the applicable Listing Rules if we enter into connected transactions with our Controlling Shareholders or any of their associates after Listing;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholders will undertake to provide all information necessary or requested by the independent non-executive Directors for the Annual Review, including all relevant financial, operational and market information;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expense;
- (g) we have appointed Somerley Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and
- (h) we have established our audit committee, compensation committee, nominating and corporate governance committee with written terms of reference in compliance with the Listing Rules and the Code of Corporate Governance and Corporate Governance Report in Appendix 14 to the Listing Rules.

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders’ interests after the Listing.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following transactions that we enter into with our connected persons will constitute connected transactions upon the Listing.

OUR CONNECTED PERSONS

The table below sets forth a party who will become our connected person upon Listing and the nature of their relationship with our Company. We have entered into certain transactions which will constitute our continuing connected transactions following the Listing with an associate of the following connected person:

| Name | Connected relationship |
|--|--|
| Meituan (stock code: 3690; together with its subsidiaries and consolidated affiliated entities, the “Meituan Group”) | a substantial shareholder of our Company |

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

We have entered into the following transactions that will constitute continuing connected transactions under Rule 14A.31 of the Listing Rules upon the Listing:

| | | | Proposed annual cap for the years ending December 31, (RMB) | | |
|---|--|---|--|------------|------------|
| Transaction | Applicable Listing Rule | Waiver sought | 2021 | 2022 | 2023 |
| Fully-exempt continuing connected transaction | | | | | |
| Use of Meituan SQT platform (defined below) by our Group | Rule 14A.76(1) | N/A | N/A | N/A | N/A |
| Partially-exempt continuing connected transaction | | | | | |
| Intellectual property licensing and provision of related technical services by our Group to Meituan Group | Rule 14A.35 Rule 14A.76(2) Rule 14A.105 | Announcement | 500,000 | 10,000,000 | 27,500,000 |
| Non-exempt continuing connected transaction | | | | | |
| Contractual Arrangements | Rule 14A.35 Rule 14A.36 Rule 14A.52 Rule 14A.53 Rule 14A.105 | Announcement and independent shareholders’ approval, circular, annual cap, limiting the term to three years | N/A | N/A | N/A |

CONNECTED TRANSACTIONS

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTION

Use of Meituan SQT Platform

On June 3, 2021, Wheels Technology (for itself and on behalf of its subsidiaries and consolidated affiliated entities) and Beijing Sankuai Online Technology Co., Ltd. (北京三快在线科技有限公司) (“**Beijing Sankuai Online**”), an indirect wholly-owned subsidiary of Meituan, entered into an agreement (the “**IT Service Agreement**”) pursuant to which Beijing Sankuai Online shall provide certain information technology services through its Shangqitong platform (商企通) (“**Meituan SQT Platform**”) to Wheels Technology in return for a service fee. The information technology services are to allow the employees of our Group to order meals through our corporate account on Meituan’s SQT Platform and for our Group to settle such expenses on a consolidated basis. Beijing Sankuai Online charges service fees at a fixed single digit percentage of the total amount spent on Meituan’s SQT Platform through our corporate account. We chose to engage Beijing Sankuai Online to provide such services as Meituan’s SQT Platform has the broad service geographical coverage in China that meets our requirement, and that the service fees were more favourable to us than those quoted by other service providers.

The term of the IT Service Agreement shall commence on June 3, 2021 and expire on December 31, 2023.

As we first started to use the above services in April 2021, we have no historical transaction amount for this transaction during the Track Record Period.

As the highest relevant percentage ratio in respect of this transaction is expected to be, on an annual basis, less than 0.1% and the transaction is on normal commercial terms (or better to us), pursuant to Rule 14A.76(1) of the Listing Rules, this transaction will be a fully-exempt continuing connected transaction, exempt from reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTION

Intellectual property licensing and provision of related technical support services

On June 3, 2021, Beijing Sankuai Online and Beijing CHJ (for itself and on behalf of its subsidiaries) entered into an agreement (the “**IP Licensing Agreement**”) pursuant to which Beijing CHJ granted a non-exclusive license to Beijing Sankuai Online during the term of the License Agreement to use our intellectual properties and related information relating to a specific smart electric vehicle model (the “**Licensed IP**”; the said specific smart electric vehicle model, the “**SEV model**”), including to manufacture, use, sell and lease products produced from the Licensed IP and to further develop intellectual properties or products based on the Licensed IP; Beijing CHJ shall also provide related technical support services (such as review of whole-vehicle and in-car electronics system design plans) to Beijing Sankuai Online. The Licensed IP include intellectual properties such as the whole-vehicle design plan, molds

CONNECTED TRANSACTIONS

and toolings and the design plans of vehicle parts and related information such as testing reports, functionality analyses and supplier information of certain vehicle parts, all in respect of the SEV model. As explained further below, the Licensed IP is not used in or relevant to our Li ONE model or other passenger car models we are or will be developing. Any new intellectual property developed by Beijing Sankuai Online based on the License IP shall belong to Beijing Sankuai Online. Beijing Sankuai Online may not sublicense the Licensed IP. The IP Licensing Agreement imposes no other express limitation on Beijing Sankuai Online's use of the Licensed IP so long as it complies with the scope of the license and other terms of the IP Licensing Agreement. Notwithstanding the foregoing, Meituan Group has indicated that it only intends to manufacture the SEV model based on the Licensed IP for its internal use rather than for external sales.

The SEV model is a two-seat low-speed mini vehicle model to be used by the Meituan Group as autonomous delivery vehicles. The SEV model is not classified as a passenger car under the relevant regulations of the PRC and is therefore not eligible to hold motor vehicle license plates or be driven on public highways. Further, as confirmed by CIC, the SEV model is not in the same product category or competing product categories of the Li ONE or any other passenger car models we are developing. The SEV model was developed by us in the initial stages of our business. However, the regulations surrounding low-speed electric vehicles in the PRC lacked clarity at the time and led to uncertainty in the commercialization of the SEV model. We therefore made a strategic decision in 2018 to terminate the commercialization of the SEV model and to turn our focus on the Li ONE model which is a large premium SUV with a range extension system designed primarily for family. The SEV model is not comparable with or otherwise related to our Li ONE model or other passenger car models that we are developing.

Apart from the inherent design, the SEV model is also distinct from and in no way competes with Li ONE or any other passenger car models we are developing in terms of usage scenarios and intended users. The SEV model is designed to be used in private business premises such as in automated delivery junctions or storage centers as opposed to on road; and it is intended to be used by businesses rather than by individual consumers. As such, our Directors believe that to grant the Licensed IP to Beijing Sankuai Online will not affect the sales or market landscape or increase the competition of our present and future passenger car models. Further, as our existing business and strategic target market both focus on the passenger vehicle market, the Licensed IP is not used in the Li ONEs and will not be used in any other passenger car models we are or will be developing. As such, to license the License IP utilizes our idle IPs, creates additional revenue for our Group and improves variety of our revenue source. The pricing under the IP Licensing Agreement is also no less favourable to us than those we apply to other independent third parties for comparable transactions.

Based on the foregoing reasons that (a) the SEV model is distinct from and in no way competes with our Li ONE and other passenger car models we are or will be developing in terms of the inherent design, usage scenarios and intended users, (b) the Licensed IP is not used and will not be used in our existing and future passenger car models, which is our core business, and therefore to grant the Licensed IP for a fee makes better use of our idle IP, creates

CONNECTED TRANSACTIONS

additional revenue for the Group and improves variety of our revenue source, and (c) the pricing under the IP Licensing agreement is no less favourable to us than those we apply to other independent third parties for comparable transactions, our Directors therefore consider the IP Licensing Agreement and the transactions contemplated thereunder are in the interest of our Company and its Shareholders as a whole.

In return for the license and technical support services, Beijing Sankuai Online shall pay Beijing CHJ a fee calculated based on: (a) the number of vehicles produced by Beijing Sankuai Online based on the Licensed IP (“**Licensed Vehicles**”); and (b) an agreed fee rate. If the number of Licensed Vehicles remains under an agreed threshold, the fee is equal to the number of Licensed Vehicle multiplied by the fee rate in (b). If the number of Licensed Vehicles exceeds such threshold, the fee rate in (b) varies based on an agreed formula that is a function of the average bill of material cost of the Licensed Vehicle. The average bill of material cost of the Licensed Vehicle is calculated by averaging the costs of procuring the materials for manufacturing the Licensed Vehicles in the applicable half-year period. In the event that the number of Licensed Vehicles produced exceeds a greater agreed threshold, the parties will separately determine the fees payable in respect of the portion that exceeded such threshold, with references to the circumstances then in force as well as the pricing policy discussed below. The fee rate in (b) was determined by dividing (x) the total costs the Group spent on developing the intellectual property involved in the SEV model by (y) the estimated total number of vehicles that may be produced using such intellectual property, then applying on such quotient (z) a discount based on the portion of such intellectual property that is being licensed under the Licensed Agreement (that is, where Beijing Sankuai Online licenses not all but a portion of the intellectual property involved in the SEV, the discount rate in (z) is equal to the portion of the intellectual property licensed by Beijing Sankuai Online). The fee rate is in line with the industry.

The term of the IP Licensing Agreement shall commence on June 3, 2021 and expire on December 31, 2023.

Pricing policy

Any fees chargeable under the IP Licensing Agreement shall be agreed between the parties after arm’s length negotiation. The pricing will be determined based on a range of factors, including the complexity of Licensed IP and volume of the technical support services expected, and will be consistent with market price charged by us and by other market participants for comparable transactions. Any fees chargeable under the IP Licensing Agreement shall be fair and reasonable and no less favourable than those we receive from other independent third parties and in the interests of our Company and the Shareholders as a whole.

Historical amounts, annual caps and basis of annual caps

We have no historical transaction amount for this transaction during the Track Record Period.

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For the years ending December 31, 2021, 2022 and 2023, the relevant annual caps are expected to be RMB0.5 million, RMB10.0 million and RMB27.5 million, respectively. The annual caps are set based on (a) Meituan Group's expected demand for, and the expected production volume of, the Licensed Vehicles in the relevant years which is in turn determined based on (i) the geographical scope of Meituan's autonomous delivery program; (ii) the expected speed of implementing Meituan's autonomous delivery program; and (iii) the expected growth and expansion of Meituan's business which drives the demand for its own autonomous delivery vehicles, and (b) the agreed fee rate (including the rate as varied according to the production volume) as described above. The quantitative estimates of the expected production volume is considered commercially sensitive information of Meituan. The annual cap for the year ending December 31, 2021 is significantly smaller than those for the following two years because, as advised by Meituan Group, the large-scale production of the Licensed Vehicles has not commenced as of the Latest Practicable Date, but is expected to commence in late 2021 or early 2022. Our Directors consider that the proposed annual caps are fair and reasonable.

Reasons for the transactions

Research and development of smart NEVs is part of our ordinary business. Meituan is a leading e-commerce platform for services in China. The Meituan Group expect to have increasing demand for autonomous delivery vehicles in the short to mid-term future and could benefit from our expertise in smart NEVs. In light of the market position and business size of Meituan Group, this cooperation can expand our customer base and contribute to our revenue.

Listing Rules implications

Since the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will be 0.1% or more but less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the transactions contemplated under the IP Licensing Agreement will be exempt from the circular (including the opinion and recommendation from an independent financial advisor) and the independent shareholders' approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49, 14A.71 and 14A.72 of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements", due to regulatory restrictions on foreign ownership in the PRC, we conduct certain business through our Consolidated Affiliated Entities in the PRC.

We do not hold any controlling equity interests in our Consolidated Affiliated Entities (except Chongqing Lixiang in which we hold 50% equity interest). The Contractual Arrangements among the WFOE, our VIEs and the Registered Shareholders enable us to (i)

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receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by the WFOE to our VIEs; (ii) exercise effective control over our Consolidated Affiliated Entities through our VIEs; and (iii) hold an exclusive option to purchase all or part of the equity interests in our VIEs held by the Registered Shareholders when and to the extent permitted by PRC laws.

See the section headed “Contractual Arrangements” for detailed terms of the Contractual Arrangements.

Listing Rules implications

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entities will be treated as our Company’s wholly-owned subsidiary, and its directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as our Company’s “connected persons.”

The transactions contemplated under the Contractual Arrangements are continuing connected transactions of the Company. The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Waiver Application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations. Our Directors also believe that our structure, whereby the financial results of our Consolidated Affiliated Entities are consolidated into our financial statements as if they were our Company’s wholly-owned subsidiaries, and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by our Consolidated Affiliated Entities and any member of our Group from time to time (including Consolidated Affiliated Entities) (the “**New Intergroup Agreements**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all such transactions to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and independent shareholders’ approval requirements.

WAIVERS

1. IP Licensing Agreement

In respect of the partially-exempt continuing connected transactions contemplated under the IP Licensing Agreement, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirements under the Listing Rules subject to the condition that, apart from the announcement requirement for which waiver has been sought, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

2. Contractual Arrangements

In respect of the Contractual Arrangements and New Intergroup Agreements, we have applied for, and the Stock Exchange has granted us, waivers from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement to set annual caps under Rule 14A.53 of the Listing Rules, and (iii) the requirement to limit the term to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Class A Ordinary Shares are listed on the Stock Exchange subject to the following conditions.

No change without independent non-executive Directors' approval

Save as described below, no change to the Contractual Arrangements (including with respect to any fees payable to the WFOEs thereunder) will be made without the approval of our independent non-executive Directors.

No change without independent Shareholders' approval

Save as described below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will however continue to be applicable.

Economic benefits and flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests in the Consolidated Affiliated Entities held by the Registered Shareholders for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the

CONNECTED TRANSACTIONS

Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOEs by our Consolidated Affiliated Entities under the Contractual Arrangements, and (iii) our Group's right to control the management and operation of, as well as, in substance, a substantial portion of the voting rights of the Consolidated Affiliated Entities.

Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between, on the one hand, our Company and the subsidiaries in which our Company has direct shareholding and, on the other hand, the Consolidated Affiliated Entities, this framework may be renewed and/or reproduced without an announcement, circular, or obtaining the approval of our Shareholders (i) upon the expiry of the existing arrangements, (ii) in connection with any changes to the shareholders or directors of, or of their shareholdings in, the Consolidated Affiliated Entities, or (iii) in relation to any existing, new or acquired wholly foreign-owned enterprise or operating company (including branch company) engaging in a business similar or relating to those of our Group.

The directors, chief executive or substantial shareholders of any existing, new or acquired wholly foreign-owned enterprise or operating company (including branch company) engaging in a business similar or relating to those of our Group will, upon renewal and/or reproduction of the Contractual Arrangements, be treated as connected persons of our Group and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.

This condition is subject to relevant PRC laws, regulations and approvals. Any such renewed or reproduced agreements will be on substantially the same terms and conditions as the existing Contractual Arrangements.

Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;
- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report that for the relevant year (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or

CONNECTED TRANSACTIONS

reproduced between our Group and the Consolidated Affiliated Entities are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole;

- our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have been approved by our Board, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of 'connected person', our Consolidated Affiliated Entities will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company as applicable under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities themselves), and therefore transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- our Consolidated Affiliated Entities will, for so long as our Class A Ordinary Shares are listed on the Stock Exchange, provide our Group's management and our Company's auditors with full access to their relevant records for the purpose of reporting on the connected transactions.

3. Overall condition for the waivers

If any term of the IP Licensing Agreement or the Contractual Arrangements is altered, or if the Company enters into any new agreements with any connected persons in the future (otherwise than pursuant to the renewal and reproduction waiver in relation to the Contractual Arrangements), the Company must fully comply with the relevant requirements under Chapter 14A of the Rules unless it applies for and obtains a separate waiver from the Stock Exchange.

DIRECTORS' CONFIRMATION

Our Directors (including independent non-executive Directors) are of the view that: (i) the continuing connected transactions set out above have been and will be entered into in our ordinary and usual course of business on normal commercial terms or better, on terms that are fair and reasonable, and in the interests of our Company and our Shareholders as a whole;

CONNECTED TRANSACTIONS

(ii) the proposed annual caps (if any) of the continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (iii) it is normal business practice for the Contractual Arrangements to be of a term greater than three years.

JOINT SPONSORS' CONFIRMATION

The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Company in relation to the above continuing connected transactions; (ii) obtained necessary representations and confirmations from the Company and the Directors, and (iii) participated in the due diligence and discussions with the management of our Group.

Based on the above, the Joint Sponsors are of the view that the aforesaid continuing connected transactions, for which waivers have been sought, have been entered into in the ordinary and usual course of our business on normal commercial terms that are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and that the proposed annual caps in respect of these partially-exempt and non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) policies of the Consolidated Affiliated Entities can be effectively controlled by the WFOE, (ii) the WFOE can obtain the economic benefits derived from our Consolidated Affiliated Entities, (iii) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented on an uninterrupted basis, and (iv) it is normal business practice for the Contractual Arrangements to be of a term greater than three years.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company upon the Listing:

Authorized Share Capital

| Number of Shares | Description of Shares | Aggregate nominal value of Shares (US\$) |
|----------------------|---|---|
| 4,500,000,000 | Class A Ordinary Shares of a par value of US\$0.0001 each | 450,000.00 |
| 500,000,000 | Class B Ordinary Shares of a par value of US\$0.0001 each | 50,000.00 |
| <u>5,000,000,000</u> | shares in total | <u>500,000.00</u> |

Issued Share Capital

The issued share capital of our Company immediately following the completion of the Global Offering (assuming the Over-allotment option is not exercised and no further Shares are issued pursuant to the Share Incentive Plans or pursuant to the conversion of the 2028 Notes) will be as follows:

| Number of Shares | Description of Shares | Aggregate nominal value of Shares (US\$) | % of the issued share Capital |
|----------------------|--|--|-------------------------------------|
| 1,596,033,630 | Class A Ordinary Shares in issue as at the date of this document | 159,603.36 | 77.79% |
| 355,812,080 | Class B Ordinary Shares in issue as at the date of this document | 35,581.21 | 17.34% |
| 100,000,000 | Class A Ordinary Shares to be issued pursuant to the Global Offering | 10,000.00 | 4.87% |
| <u>2,051,845,710</u> | Shares in total | <u>205,184.57</u> | <u>100%</u> |

SHARE CAPITAL

WEIGHTED VOTING RIGHTS STRUCTURE

The Company has a weighted voting rights structure. Under this structure, the Company's share capital comprises Class A Ordinary Shares and Class B Ordinary Shares; each Class A Ordinary Share entitles the holder to exercise one vote, and each Class B Ordinary Share entitles the holder to exercise ten votes, on any resolution tabled at the Company's general meetings, except for resolutions with respect to the Reserved Matters, in relation to which each Share is entitled to one vote.

The Reserved Matters are:

- (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares;
- (ii) the appointment, election or removal of any independent non-executive Director;
- (iii) the appointment or removal of the Company's auditors; and
- (iv) the voluntary liquidation or winding-up of the Company.

In addition, Shareholders, including holders of Class A Ordinary Shares, holding not less than 10% of all shares in issue of the Company that carries the right of voting at general meetings (i.e. on a one vote per share basis) are entitled to convene an extraordinary general meeting of the Company and add resolutions to the meeting agenda.

As we are seeking a dual primary listing as an issuer with a WVR structure, we are subject to: (a) certain shareholder protection measures and governance safeguards under Chapter 8A of the Hong Kong Listing Rules, including Rule 8A.44 of the Hong Kong Listing Rules, which requires our WVR Structure to give force to the requirements of certain rules under Chapter 8A of the Hong Kong Listing Rules by incorporating them into our Articles; and (b) the articles requirements set out in Appendix 3 and Appendix 13 to the Hong Kong Listing Rules (the **"Listing Rules Articles Requirements"**). Our Articles do not currently comply with some of the Listing Rules Articles Requirements, and we undertake to put forth resolutions to amend our Articles to comply with these requirements at an extraordinary general meeting to be convened in or before January 2022 (the **"First GM"**).

Furthermore, we undertake to, at the First GM, seek shareholders' approval to amend our Articles to incorporate the Termination of Founder Entity's Special Rights, the Quorum Requirement, the GM Postponement Requirement, the Amendment of Directors' Class Right Related Powers, the Amendment of Auditor Appointment Powers and the Forum Selection Clarification into the Articles. Details of these proposed amendments are set out in the section headed **"Waivers and Exemptions—Requirements relating to the Articles of Association of the Company"** of this document.

SHARE CAPITAL

In addition, save for the exceptions specified below, we have undertaken to the Stock Exchange to fully comply with the Unmet Listing Rules Articles Requirements, the Termination of Founder Entity's Special Rights, the GM Postponement Requirement, the Amendment of Directors' Class Right Related Powers, the Amendment of Auditor Appointment Powers and the Forum Selection Clarification upon the Listing and before our Articles are formally amended:

- Paragraph 2(1) of Part B of Appendix 13 such that, prior to the Company's Articles being amended, the threshold for passing a resolution in a separate class meeting will be approval by holders of 50% of the issued shares of that class pursuant to article 19 the Company's existing Articles; and
- Rules 8A.24(1) and (2) and paragraph 1 of Part B of Appendix 13 such that, prior to the Company's Articles being amended, the threshold for passing a special resolution for amendments to the Company's Articles will be approval by members holding not less than two-thirds of the voting rights of those present and voting in person or by proxy at the general meeting in accordance with article 162 the Company's existing Articles.

For further details, please see "Waivers and Exemptions—Requirements Relating to the Articles of Association of the Company" and the summary of the Articles of Association in Appendix III.

The table below sets out the ownership and voting rights to be held by the WVR Beneficiary upon the completion of the Global Offering:

| | Number of shares | Approximate % of issued share capital ⁽¹⁾ | Approximate % of total voting rights ⁽¹⁾⁽²⁾⁽³⁾ | Approximate % of effective voting rights ⁽¹⁾⁽²⁾⁽⁴⁾ |
|-------------------------|---------------------|---|--|---|
| Class A Ordinary Shares | 108,557,400 | 5.29% | 2.07% | 0% |
| Class B Ordinary Shares | 355,812,080 | 17.34% | 67.72% | 69.15% |
| Total | 464,369,480 | 22.63% | 69.79% | 69.15% |

Notes:

- (1) Assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes.
- (2) Class A Ordinary Shares entitle the Shareholder to one vote per share and Class B Ordinary Shares entitle the Shareholder to ten votes per share, except for resolutions with respect to the Reserved Matters for which each Share entitles each Shareholder to one vote per share.
- (3) Assuming all of the Performance Conditions are met and the Award Premium is fully paid in respect of all CEO Award Shares (which are Class A Ordinary Shares with one vote per share).
- (4) Assuming none of the Performance Conditions is met and no Award Premium is paid in respect of all CEO Award Shares (which are Class A Ordinary Shares with one vote per share).

SHARE CAPITAL

Class B Ordinary Shares may be converted into Class A Ordinary Shares on a one to one ratio. Upon the conversion of all the issued and outstanding Class B Ordinary Shares into Class A Ordinary Shares, the Company will issue 355,812,080 Class A Ordinary Shares, representing approximately 17.34% of the total number of issued and outstanding Class A Ordinary Shares (as enlarged by such Class A Ordinary Shares and assuming the Over-allotment Option is not exercised, none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes).

The weighted voting rights attached to our Class B Ordinary Shares will cease when the WVR Beneficiary no longer has beneficial ownership of any of our Class B Ordinary Shares, in accordance with Rule 8A.22 of the Listing Rules. This may occur:

- (i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rule, in particular where the WVR Beneficiary is: (1) deceased; (2) no longer a member of our Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;
- (ii) when the holders of Class B Ordinary Shares have transferred to another person the beneficial ownership of, or economic interest in, all of the Class B Ordinary Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rule;
- (iii) where a vehicle holding Class B Ordinary Shares on behalf of a WVR Beneficiary no longer complies with Rule 8A.18(2) of the Listing Rule; or
- (iv) when all of the Class B Ordinary Shares have been converted to Class A Ordinary Shares.

Save for the weighted voting rights attached to Class B Ordinary Shares, the rights attached to all classes of Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A Ordinary Shares and Class B Ordinary Shares, see “Summary of the Constitution of the Company and Cayman Company Law—Articles of Association” in Appendix III for further details.

WVR BENEFICIARY

Immediately upon completion of the Global Offering, the WVR Beneficiary will be Mr. Li. Assuming (i) the Over-allotment Option is not exercised, (ii) none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares, (iii) no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, and (iv) without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans, Mr. Li will beneficially own and will control, through his intermediaries, an aggregate of 355,812,080 Class B Ordinary Shares and 108,557,400 CEO Award Shares (which are Class A Ordinary Shares with one vote per share), representing (a) approximately 22.63% of our issued Shares; (b) approximately 69.59% of the effective voting

SHARE CAPITAL

rights in our Company with respect to shareholder resolutions relating to matters other than the Reserved Matters and (c) approximately 18.63% with respect to shareholder resolutions relating to Reserved Matters. The Class B Ordinary Shares are held by Amp Lee Ltd., which is wholly owned by Cyric Point Enterprises Limited. The entire interest in Cyric Point Enterprises Limited is held by a trust that was established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family. For further details of the CEO Award Shares, see section headed “Directors and Senior Management—Grant of CEO Award.”

The Company confirms that the holding arrangement through which the WVR Beneficiary holds the Class B Ordinary Shares as described above meets the requirements in Rule 8A.18 and the holding arrangement is permitted under the “Consultation Conclusions—a listing regime for companies from emerging and innovative sectors” issued by the Stock Exchange in April 2018, namely: (a) a partnership of which the WVR Beneficiary is a partner and the terms of which must expressly specify that the voting rights attached to any and all of the Class B Ordinary Shares held by such partnership are solely dictated by the WVR Beneficiary; (b) a trust of which the WVR Beneficiary is a beneficiary and that meets the following conditions: (i) the WVR Beneficiary must in substance retain an element of control of the trust and any immediate holding companies of, or, if not permitted in the relevant tax jurisdiction, retain a beneficial interest in any and all of the Class B Ordinary Shares held by such trust; and (ii) the purpose of the trust must be for estate planning and/or tax planning purposes; or (c) a private company or other vehicle wholly-owned and wholly controlled by the WVR Beneficiary or by a trust referred to in paragraph (b) above.

Each of the Company and Mr. Li confirms that there is no encumbrance over any Class B Ordinary Shares as at the date of this document and that no new encumbrance will be created over any Class B Ordinary Shares before the proposed amendments to the Articles as described in the section headed “Waivers and Exemptions—Requirements relating to the Articles of Association of the Company” have become effective.

The Company adopted the WVR structure to enable the WVR Beneficiary to exercise voting control over the Company notwithstanding that the WVR Beneficiary does not hold a majority economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR Beneficiary who will control the Company with a view to its long-term prospects and strategy.

Prospective investors are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR Beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of Shareholders’ resolutions. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure, see “Risk factors—Risks relating to our WVR structure.”

SHARE CAPITAL

UNDERTAKINGS BY THE WVR BENEFICIARY

Pursuant to Rule 8A.43 of the Listing Rules, each WVR Beneficiary is required to give a legally enforceable undertaking to the Company that he will comply with the relevant requirements as set out in Rule 8A.43, which is intended to be for the benefit of and enforceable by the Shareholders. On July 27, 2021, Mr. Li made an undertaking to the Company (the “**Undertaking**”), that for so long as he is a WVR Beneficiary:

- (a) he shall comply with (and, if the shares to which the weighted voting rights that he is beneficially interested in are attached are held through a limited partnership, trust, private company, or other vehicle, use his best endeavors to procure that such limited partnership, trust, private company or other vehicle complies with) all applicable requirements under Rules 8A.09, 8A.14, 8A.15, 8A.17, 8A.18 and 8A.24 of the Listing Rules from time to time in force (the “**Requirements**”); and
- (b) he shall use his best endeavors to procure that the Company complies with all applicable Requirements.

For the avoidance of doubt, the Requirements are subject to Rule 2.04 of the Listing Rules. The WVR Beneficiary acknowledged and agreed that the Shareholders rely on the Undertaking in acquiring and holding their shares. The WVR Beneficiary acknowledged and agreed that the Undertaking is intended to confer a benefit on the Company and all Shareholders and may be enforced by the Company and/or any Shareholder against the WVR Beneficiary.

The Undertaking shall automatically terminate upon the earlier of (i) the date of delisting of the Company from the Stock Exchange, and (ii) the date on which the WVR Beneficiary ceases to be a beneficiary of weighted voting rights in the Company. For the avoidance of doubt, the termination of the Undertaking shall not affect any rights, remedies, obligations or liabilities of the Company and/or any Shareholder and/or the WVR Beneficiary himself that have accrued up to the date of termination, including the right to claim damages and/or apply for any injunction in respect of any breach of the Undertaking which existed at or before the date of termination.

The Undertaking shall be governed by the laws of Hong Kong and all matters, claims or disputes arising out of the Undertaking shall be subject to the exclusive jurisdiction of the courts of Hong Kong.

SHARE CAPITAL

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which General Meeting and Class Meeting are Required

Our Company may by ordinary resolution (i) increase its share capital by the creation of new shares; (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares; (iii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person; and (iv) sub-divide its shares or any of them into shares of smaller amount. In addition, our Company may by special resolution reduce its share capital or any capital redemption reserve subject to any conditions prescribed by the Cayman Companies Act.

See “Summary of the constitution of the Company and Cayman Company Law—Articles of Association—Changes in Share Capital” in Appendix III for further details.

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Act, be varied or abrogated only with (in addition to a special resolution to amend the Memorandum or the Articles) the consent in writing of the holders of not less than fifty percent in nominal value of the issued shares of that class or with the sanction of an ordinary resolution passed at a separate meeting of the holders of the shares of that class Present (as defined in the Articles) and voting at such meeting.

See “Summary of the constitution of the Company and Cayman Company Law—Articles of Association—Variation of rights of Shares” in Appendix III for further details.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, the following persons (other than a Director or chief executive of the Company) will have interests and/or short positions (as applicable) in the Shares or underlying Shares of our Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

| Name of substantial shareholder | Capacity/ Nature of interest | Number of Shares ⁽¹⁾ | Approximate percentage of shareholding in each class of share of our Company as at the Latest Practicable Date | Approximate percentage of shareholding in each class of share of our Company after the Global Offering ⁽¹⁾ |
|---|---|------------------------------------|---|--|
| <i>Class A Ordinary Shares</i> | | | | |
| Inspired Elite Investments Limited ⁽²⁾ | Beneficial interest | 258,171,601 | 16.18% | 15.22% |
| Meituan ⁽²⁾ | Interest in controlled corporations | 258,171,601 | 16.18% | 15.22% |
| Zijin Global Inc. ⁽³⁾ | Beneficial interest | 133,263,086 | 8.35% | 7.86% |
| Mr. Wang Xing ⁽²⁾⁽³⁾ | Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust | 391,434,687 | 24.53% | 23.08% |
| Amp Lee Ltd. ⁽⁴⁾ | Beneficial interest | 108,557,400 | 6.80% | 6.40% |
| Mr. Li Xiang ⁽⁴⁾ | Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust | 108,557,400 | 6.80% | 6.40% |
| Rainbow Six Limited ⁽⁵⁾ | Beneficial interest | 86,978,960 | 5.85% | 5.13% |

SUBSTANTIAL SHAREHOLDERS

| Name of substantial shareholder | Capacity/ Nature of interest | Number of Shares ⁽¹⁾ | Approximate percentage of shareholding in each class of share of our Company as at the Latest Practicable Date | Approximate percentage of shareholding in each class of share of our Company after the Global Offering ⁽¹⁾ |
|---------------------------------------|---|------------------------------------|---|--|
| Mr. Fan Zheng ⁽⁵⁾ | Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust | 86,978,960 | 5.85% | 5.13% |
| <i>Class B Ordinary Shares</i> | | | | |
| Amp Lee Ltd. ⁽⁴⁾ | Beneficial interest | 355,812,080 | 100% | 100% |
| Mr. Li ⁽⁴⁾ | Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust | 355,812,080 | 100% | 100% |

Notes:

- (1) The table above assumes (i) the Global Offering becomes unconditional and the Offer Shares are issued pursuant to the Global Offering, (ii) the Over-allotment Option is not exercised and no Shares are issued under the Share Incentive Plans, (iii) no Shares are issued or canceled and no other potential change to the share capital materialize as described in “—Potential changes to share capital” below, (iv) none of the Performance Conditions are met and no Award Premium is paid in respect of any CEO Award Shares (which are Class A Ordinary Shares with one vote per share), (v) no Class B Ordinary Shares are converted into Class A Ordinary Shares, and (vi) without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans. Each Class A Ordinary Share entitles the holder thereof to exercise one vote, and each Class B Ordinary Share entitles the holder thereof to exercise ten votes, on any resolution tabled at the Company’s general meetings, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote.
- (2) Inspired Elite Investments Limited is a company incorporated in British Virgin Islands. Inspired Elite Investments Limited is a wholly owned subsidiary of Meituan, a company incorporated in the Cayman Islands and listed on the Stock Exchange (stock code: 3690). As such, Meituan is deemed to be interested in the Class A Ordinary Shares held by Inspired Elite Investments Limited.
- (3) Zijin Global Inc. is a company incorporated in British Virgin Islands. Zijin Global Inc. is wholly owned by Songtao Limited. The entire interest in Songtao Limited is held by a trust that was established by Mr. Wang Xing (as the settlor), our non-executive Director, for the benefit of Mr. Wang Xing and his family, with the trustee being TMF (Cayman) Ltd. As such, Mr. Wang Xing is deemed to be interested in the Class A Ordinary Shares held by Zijin Global Inc. Further, Mr. Wang Xing is a director and the controlling shareholder of Meituan and is therefore deemed to be interested in the Shares held by Inspired Elite Investments Limited.
- (4) Amp Lee Ltd. is a company incorporated in British Virgin Islands and is wholly owned by Cyric Point Enterprises Limited. The entire interest in Cyric Point Enterprises Limited is held by a trust that was established by Mr. Li (as the settlor), our executive Director and controlling shareholder, for the benefit of Mr. Li and his family. As such, Mr. Li is deemed to be interested in the Class B Ordinary Shares held by Amp Lee Ltd.
- (5) Rainbow Six Limited is a company incorporated in British Virgin Islands and is wholly owned by Star Features Developments Limited. The entire interest in Star Features Development Limited is held by a trust that was established by Mr. Fan Zheng (as the settlor), our non-executive Director, for the benefit of Mr. Fan Zheng and his family. As such, Mr. Fan Zheng is deemed to be interested in the Class A Ordinary Shares held by Rainbow Six Limited.

SUBSTANTIAL SHAREHOLDERS

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering (and assuming that the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes), have any interest and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or any other member of our Group.

The below table sets out the shareholding and voting rights at general meetings of our Company (except for resolutions with respect to a limited number of Reserved Matters) of our major shareholders as of the Latest Practicable Date and immediately following the completion of the Global Offering.

| Name of major shareholder | Class A Ordinary Shares | Class B Ordinary Shares | Approximate percentage of shareholding as of the Latest Practicable Date | Approximate percentage of voting rights as of the Latest Practicable Date | Approximate percentage of shareholding immediately following the completion of the Global Offering ⁽¹⁾ | Approximate percentage of voting rights immediately following the completion of the Global Offering ⁽¹⁾ |
|---|-------------------------------|-------------------------------|---|--|--|---|
| Inspired Elite Investments Limited ⁽²⁾ | 258,171,601 | – | 13.23% | 4.21% | 12.58% | 5.05% |
| Zijin Global Inc. ⁽³⁾ | 133,263,086 | – | 6.76% | 2.15% | 6.43% | 2.61% |
| Amp Lee Ltd. ⁽⁴⁾ | 108,557,400 | 355,812,080 | 23.79% | 75.74% | 22.63% | 69.59% |
| Rainbow Six Limited ⁽⁵⁾ | 86,978,960 | – | 4.46% | 1.42% | 4.24% | 1.70% |

Notes (1)-(5): See Notes (1)-(5) to the above table on the immediately preceding page.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of eight Directors, comprising three executive Directors, two non-executive Director and three independent non-executive Directors. The following table provides certain information about our Directors:

| Name | Age | Position | Date of joining the Group | Date of appointment as a Director | Roles and responsibilities |
|----------------------|-----|---|---------------------------|-----------------------------------|--|
| LI Xiang (李想) | 39 | Executive Director, Chairman, Chief Executive Officer and Founder | April 2015 | April 28, 2017 | Responsible for the overall strategy, product design, business development and management of our Company |
| SHEN Yanan (沈亞楠) | 43 | Executive Director and President | November 2015 | April 28, 2017 | Responsible for the overall strategy, business development, supply chain management and sales and marketing of our Company |
| LI Tie (李鐵) | 43 | Executive Director and Chief Financial Officer | July 2016 | April 28, 2017 | Responsible for the overall strategy, the accounting, legal and internal controls functions, and the capital markets activities of our Company |
| WANG Xing (王興) | 42 | Non-executive Director | July 2019 | July 2, 2019 | Providing professional opinion and judgement to the Board |
| FAN Zheng (樊錚) | 42 | Non-executive Director ⁽¹⁾ | July 2019 | October 22, 2020 | Providing professional opinion and judgement to the Board |
| ZHAO Hongqiang (趙宏強) | 44 | Independent non-executive Director ⁽²⁾ | July 2020 | July 29, 2020 | Providing independent opinion and judgement to the Board |

DIRECTORS AND SENIOR MANAGEMENT

| Name | Age | Position | Date of joining the Group | Date of appointment as a Director | Roles and responsibilities |
|--------------------|-----|---|---------------------------|-----------------------------------|--|
| XIAO Xing (肖星) | 50 | Independent non-executive Director ⁽³⁾ | Listing Date | Listing Date | Providing independent opinion and judgement to the Board |
| JIANG Zhenyu (姜震宇) | 47 | Independent non-executive Director ⁽³⁾ | Listing Date | Listing Date | Providing independent opinion and judgement to the Board |

Notes:

- (1) Mr. Fan Zheng is our independent director under applicable U.S. regulations, but does not meet all of the independence criteria set out in Rule 3.13 of the Hong Kong Listing Rules and, accordingly, is considered a non-executive director under the Hong Kong Listing Rules.
- (2) Mr. Zhao Hongqiang is our independent director under applicable U.S. regulations and is also independent non-executive Director for the purpose of the Hong Kong Listing Rules. We have determined that Mr. Zhao qualifies as an “audit committee financial expert” under the applicable rules of the SEC and has the appropriate professional accounting or financial management experience.
- (3) The appointment of Mr. Jiang Zhenyu and Prof. Xiao Xing as independent non-executive Directors will take effect from the Listing Date.

Save as disclosed below, none of the Directors had held any directorships in listed companies during the three years immediately prior to the Latest Practicable Date, there is no other information in respect of the Directors to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules, and there is no other matter that needs to be brought to the attention of Shareholders or potential investors.

Executive Directors

Mr. Li Xiang (李想) aged 39, is the Founder, an executive Director, the Chief Executive Officer and the Chairman of the Board of the Company. Mr. Li is responsible for the overall strategy, product design, business development and management of our Company.

Mr. Li has over 20 years of founding and managing internet technology companies in China, including over 15 years of experience focusing on the automotive industry. Mr. Li is the founder of Autohome Inc., (NYSE: ATHM; HKEX stock code: 2518) (“**Autohome**”), and served as its president from 1999 to June 2015. Autohome is the leading online destination for automobile consumers in China. At Autohome, Mr. Li was primarily responsible for its overall strategy, content creation and product development. From May 2015 to September 2018, Mr. Li served as a director of NIO Inc. (NYSE: NIO). Mr. Li has served as an independent director of Beijing Siwei Tuxin Technology Co., Ltd. (北京四維圖新科技股份有限公司) (Shenzhen Stock Exchange stock code: 002405) since May 2017, and is also on the board of directors of several private companies. Mr. Li studied at Shijiazhuang No. 4 Middle School and decided to pursue a career in entrepreneurship following high school rather than pursuing tertiary education.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shen Yanan (沈亞楠), aged 43, is an executive Director and has served as our President since November 2015. Mr. Shen is responsible for the overall strategy, business development, supply chain management and sales and marketing of our Company.

Prior to joining our Group, Mr. Shen held various positions with Lenovo with his most recent position as vice president in charge of global supply chain operations at Lenovo from October 2014.

Mr. Shen received a bachelor's degree in industrial foreign trade from Shanghai Jiao Tong University in July 1999 and a master's degree in logistics and supply chain management from University of Edinburgh in December 2000. Mr. Shen obtained his EMBA degree from China Europe International Business School in October 2013.

Mr. Li Tie (李鐵), aged 43, is an executive Director and has served as our Chief Financial Officer since July 2016. Mr. Li is responsible for the overall strategy, the accounting, legal and internal controls functions and the capital markets activities of our Company.

Prior to joining our Group, Mr. Li worked at Autohome from March 2008 to June 2016 with his last position as a vice president of Autohome. Before joining Autohome, Mr. Li worked at PricewaterhouseCoopers Beijing Office from August 2002 to February 2008.

Mr. Li completed the Senior Executive Leadership Program held by Harvard Business School in July 2019. He received his bachelor's degree in accounting and master's degree in management from Tsinghua University in July 1999 and June 2002 respectively.

Non-executive Directors

Mr. Wang Xing (王興), aged 42, is a non-executive Director of the Company. Mr. Wang is a co-founder, an executive director, the chief executive officer and chairman of the board of Meituan (HKEX stock code: 3690), a leading e-commerce platform for services in China which was listed on the Main Board of the Stock Exchange in September 2018. Mr. Wang is responsible for the overall strategic planning, business direction and management of Meituan. He also holds directorship in various subsidiaries of Meituan. Prior to founding *meituan.com* in 2010, he co-founded *xiaonei.com*, China's first college social network website, in 2005. *xiaonei.com* was later renamed as Renren Inc. (NYSE: RENN). Mr. Wang also co-founded *fanfou.com*, a social media company specializing in microblogging, in May 2007 and was responsible for the management and operation of this company from May 2007 to July 2009.

Mr. Wang received his bachelor's degree in electronic engineering from Tsinghua University in July 2001 and his master's degree in electrical engineering from University of Delaware in January 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fan Zheng (樊錚), aged 42, is a non-executive Director (under the Hong Kong Listing Rules) of the Company and has served as our independent director (under applicable U.S. regulations) since October 2020. Prior to joining us, Mr. Fan served as co-founder and vice president of Autohome from June 1999 to October 2016. At Autohome, Mr. Fan was primarily responsible for its technological operations.

Mr. Fan graduated with a college diploma in computer science from Hebei University of Science and Technology in July 2000.

Independent Non-Executive Directors

Mr. Zhao Hongqiang (趙宏強), aged 44, has served as an independent director of our Company since July 2020 and was re-designated as an independent non-executive Director with effect from the Listing Date.

Mr. Zhao serves as an executive director and chief financial officer of Bairong Inc. (HKEX stock code: 6608) (“**BaiRong**”), a leading big-data application platform in financial sector in China, since June 2018. Mr. Zhao also currently serves as an independent director of HUYA Inc. (NYSE: HUYA), a leading China-based game live streaming company since May 2018. Previously, Mr. Zhao served as chief financial officer of NetEase Lede Technology Co., Ltd. Beijing Branch from October 2014. Mr. Zhao previously held the position of assistant chief auditor at the Public Company Accounting Oversight Board, a regulatory oversight agency under the SEC. He was also employed with KPMG LLP in the United States from August 2001 to February 2009, with the most recent position being Manager Audit. Mr. Zhao accumulated corporate governance knowledge and experience through his aforementioned positions and directorships at BaiRong, NetEase Lede Technology Co., Ltd. Beijing Branch and the Public Company Accounting Oversight Board of the SEC.

Mr. Zhao received a bachelor’s degree in accounting from Tsinghua University in July 1999 and a master’s degree in accountancy from the George Washington University in May 2001.

Mr. Jiang Zhenyu (姜震宇), aged 47, was appointed as an independent non-executive Director with effect from the Listing Date.

Mr. Jiang has more than 12 years of experience in financial management and legal practices. Mr. Jiang has served as the chief financial officer and a joint company secretary of Dida Inc. since May 2020 and September 2020, respectively. At Dida Inc, Mr. Jiang is primarily responsible for finance, investments and capital market activities and corporate governance related matters. Prior to joining Dida Inc., Mr. Jiang served as the chief financial officer of Cheetah Mobile Inc., a company listed on the New York Stock Exchange (NYSE: CMCN), from April 2017 to January 2020. Prior to that, Mr. Jiang founded and operated a startup tech company. From February 2014 to October 2015, Mr. Jiang served as the chief financial officer at 9F Inc., a company listed on Nasdaq (Nasdaq: JFU). From September 2008 to March 2014, he worked as an associate at Skadden, Arps, Slate, Meagher & Flom LLP. Mr.

DIRECTORS AND SENIOR MANAGEMENT

Jiang also served as an engineer at BorgWarner, Inc., a company listed on the New York Stock Exchange (NYSE: BWA) from January 2000 to July 2006. Mr. Jiang accumulated corporate governance knowledge and experience through his aforementioned senior management positions at Dida Inc, Cheetah Mobile Inc. and 9F Inc..

Mr. Jiang graduated from Tsinghua University with a bachelor's degree and a master's degree in automotive engineering in July 1995 and June 1998, respectively. He further obtained a master's degree from Pennsylvania State University in December 1999 and a juris doctor degree from Cornell Law School in May 2008. Mr. Jiang qualified as a registered attorney at law in the State of New York in January 2009 and was also recognized as a chartered financial analyst by CFA Institute in the USA in April 2013.

Prof. Xiao Xing (肖星), aged 50, was appointed as an independent non-executive Director with effect from the Listing Date.

Prof. Xiao is a Professor and the Head of the Accounting Department of the School of Economics and Management of Tsinghua University, where she has taught classes since April 1997. During her time at the Tsinghua University, Prof. Xiao visited Harvard University, Massachusetts Institute of Technology, University of Wisconsin as a senior visiting scholar and received the Fulbright Scholar award in 2011. Prof. Xiao's main research areas are corporate governance, financial management, financial statement analysis and financial accounting.

Prof. Xiao has served as an independent director of Mango Excellent Media Co., Ltd. (Shenzhen Stock Exchange stock code: 300413) since January 2019; an independent director of Huaxi Biological Co., Ltd., (Shanghai Stock Exchange stock code: 688363) since March 2019; and an independent non-executive director of Agricultural Bank of China Co., Ltd. (Shanghai Stock Exchange stock code: 601288 and HKEX stock code: 1288) from March 2015 to July 2021; independent director of Goertek Inc. (Shenzhen Stock Exchange stock code: 002241) from September 2013 to November 2019; an independent director of Huayu Software Co., Ltd. (Shenzhen Stock Exchange stock code: 300271) from June 2019 to March 2020; and an independent director of Aixin Life Co., Ltd. since August 2017. Prof. Xiao accumulated corporate governance knowledge and experience through her academic research and the foregoing directorships.

Prof. Xiao received a bachelor's degree in mechanical engineering and a second bachelor's degree in business management from Tsinghua University in July 1994 and a master's degree in industrial foreign trade (accounting) from Tsinghua University in March 1997. Prof. Xiao obtained her doctorate degree in accounting from Tsinghua University in January 2004.

Legal proceedings involving certain Directors

Mr. Li Xiang, our Founder and executive Director, was named as a defendant in three pending securities class action lawsuits filed in 2019 by certain investors against NIO Inc. ("NIO"), a company listed on the New York Stock Exchange (NYSE: NIO), together with

DIRECTORS AND SENIOR MANAGEMENT

certain current, former directors and senior officers of NIO Inc. (the “**NIO Class Actions**”). The three cases remained pending in the U.S. District Court for the Eastern District of New York (E.D.N.Y.), Supreme Court of the State of New York, New York County (N.Y. County), and Supreme Court of the State of New York, County of Kings (Kings County) respectively. The plaintiffs in the NIO Class Actions allege, in sum and substance, that NIO made false and misleading statements and/or omissions in its registration statement and prospectus filed with the U.S. SEC in connection with NIO’s initial public offering in September 2018, including statements regarding NIO’s plans with respect to building a manufacturing facility in Shanghai, the impact of reductions or cancellations in government subsidies on NIO’s sales and business, and NIO’s quality control over its vehicles. Plaintiffs seek monetary damages for alleged losses suffered as a result of these alleged misrepresentations. Mr. Li was a director of NIO from May 2015 and resigned with effect from September 11, 2018, prior to the issuance of NIO’s registration statement and the prospectus in question.

As at the Latest Practicable Date, to our best knowledge, (a) in respect of one of the NIO Class Actions, Mr. Li was initially served in December 2020; the plaintiffs filed their second amended complaint in September 2020, in which there was no specific allegation raised against Mr. Li individually; NIO and other defendants filed their motion to dismiss such action in October 2020; Mr. Li joined NIO’s motion to dismiss in December 2020; and the court’s decision on the motion to dismiss remained pending; (b) Mr. Li has not been served in respect of the other two NIO Class Actions; and (c) the NIO Class Actions are still at a preliminary stage and no court has ruled on the substance of the plaintiffs’ claims.

Mr. Jiang Zhenyu (“**Mr. Jiang**”), an independent non-executive Director, has been named as a defendant in several securities class action lawsuits since November 2017 filed by certain investors against Cheetah Mobile Inc. (“**Cheetah**”), a company listed on the New York Stock Exchange (NYSE: CMCN), and others in the District Court for the Central District of California and the District Court for the Southern District of New York. Except for two class actions (the “**Cheetah Class Actions**”) filed in June 2020 and July 2020 which are still ongoing, all the other class actions were dismissed either voluntarily by the plaintiffs or by court by granting the motions to dismiss based on the conclusion that the statements challenged by the plaintiffs are neither false nor misleading and such plaintiffs do not adequately plead knowledge on the part of any defendant. The Cheetah Class Actions alleged, in sum and substance, that during the period from March 2019 to February 2020, Cheetah made false and misleading statements about its business and prospects and/or omissions and failed to disclose that certain of Cheetah’s apps were not compliant with the terms of its agreement with a major customer of Cheetah such that its business relationship with such customer might be terminated which may result in decline in Cheetah’s revenue. Plaintiffs seek monetary damages for alleged losses suffered as a result of these alleged misrepresentations. Mr. Jiang, as the former chief financial officer of Cheetah, together with certain other current and former directors and senior officers of Cheetah were named as the defendants in the Cheetah Class Actions. Mr. Jiang left the position as the chief financial officer of Cheetah in January 2020 prior to the termination of Cheetah’s agreements with the major customer and the filings of these two outstanding cases.

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As at the Latest Practicable Date, to our best knowledge, (a) the Cheetah Class Actions were consolidated in In Re: Cheetah Mobile, Inc. Securities Litigation (Case No. 2:20-cv-05696) in California Central District Court, and were at a preliminary stage and no court has ruled on the substance of each plaintiff's claims, and (b) Mr. Jiang has not been served in respect of the Cheetah Class Actions.

Based on the information available and reasonable due diligence conducted by the Company up to the Latest Practicable Date, including (i) inquiries with Mr. Li; (ii) that Mr. Li resigned as a director of NIO prior to the issue of the registration statement and the prospectus in question and had no material involvement in the preparation and issue of the registration statement and the prospectus in question; (iii) in the NIO Class Action that Mr. Li was served, there was no specific allegation raised against Mr. Li individually; (iv) that Mr. Li has not been served in respect of the other two NIO Class Actions; (v) the NIO Class Actions are still at a preliminary stage and no court has ruled on the substance of the plaintiffs' claims; (vi) based on our due enquiry and review of related documents and disclosure, including related court filings, independent media reports and NIO's public disclosure relating to the aforementioned NIO Class Actions or matters alleged, to the best of our knowledge, we are not aware of any affirmative specific facts made against Mr. Li that lead us to believe that Mr. Li may personally be liable for the violations alleged in the NIO Class Actions or for failing to discharge his duties and responsibilities as a director of NIO with respect to the matters involved in the NIO Class Actions, or that Mr. Li is unsuitable to act as a director of a listed company, or that the monetary damages sought in the NIO Class Actions would disqualify Mr. Li from acting as a director of a public company listed in the United States; and (vii) that based on the background check and litigation searches conducted by independent third parties, we are not aware of any other disputes, litigations or regulatory disciplinary actions or investigations against Mr. Li, the Directors are of the view that the NIO Class Actions do not have any impact on the suitability of Mr. Li as a Director of our Company under Rules 3.08 and 3.09 of the Listing Rules.

Based on the information available and reasonable due diligence conducted by the Company up to the Latest Practicable Date, including (i) inquiries with Mr. Jiang; (ii) Mr. Jiang left the position as the chief financial officer of Cheetah prior to the termination of Cheetah's agreements with the major customer and the filings of the two outstanding Cheetah Class Actions; (iii) the alleged misrepresentations were primarily relating to the alleged non-compliance of some of Cheetah's apps with the terms of the agreement with the major customer, which was a matter not oversaw by Mr. Jiang or within his responsibility as the chief financial officer of Cheetah, and thus Mr. Jiang, who was primarily responsible for financial related matters in Cheetah, was not aware of nor informed of such matters until Cheetah publicly announced the event in February 2020; (iv) that the Cheetah Class Actions (which have been consolidated) remain at a preliminary stage and no court has ruled on the substance of each plaintiff's claims; (v) Mr. Jiang has not been served in respect of the Cheetah Class Actions, (vi) based on our due enquiry and review of related documents and disclosure, including related court filings, independent media reports and Cheetah's public disclosure relating to the aforementioned Cheetah Class Actions or matters alleged, to the best of our knowledge, we are not aware of any affirmative specific facts made against Mr. Jiang that lead us to believe that Mr. Jiang may personally be liable for the violations alleged in the Cheetah

DIRECTORS AND SENIOR MANAGEMENT

Class Actions or for failing to discharge his duties and responsibilities as the chief financial officer of Cheetah with respect to the matters involved in the Cheetah Class Actions, or that Mr. Jiang is unsuitable or incompetent to act as a director of a listed company, or that the monetary damages sought in the Cheetah Class Actions would disqualify Mr. Jiang from acting as a director of a public company listed in the United States, and (vii) that based on the background check and litigation searches conducted by independent third parties, we are not aware of any other disputes, litigations or regulatory disciplinary actions or investigations against Mr. Jiang, the Directors are of the view that the Cheetah Class Actions do not have any impact on the suitability of Mr. Jiang to serve as a Director of our Company under Rules 3.08 and 3.09 of the Listing Rules.

Based on the currently available information and independent due diligence work conducted by the Joint Sponsors, including but not limited to, (i) reviewing the documents in relation to the NIO Class Actions and the Cheetah Class Actions made available to the Joint Sponsors and public record and relevant announcements issued by NIO and Cheetah, (ii) conducting background searches on Mr. Li and Mr. Jiang, and (iii) reviewing representations made by Mr. Li and Mr. Jiang during the due diligence interviews, after considering the facts and the due diligence conducted by the Company as set out above, the Joint Sponsors concur with the Directors' view on the suitability of Mr. Li and Mr. Jiang to serve as Directors as stated above, with the qualification that Mr. Li and Mr. Jiang will not ultimately be personally liable for the NIO Class Actions and the Cheetah Class Actions for any reason that implicates their integrity, competence and suitability to act as a Director.

The Company will closely monitor the developments of the NIO Class Actions and the Cheetah Class Actions, and will review the above view should the facts change, new information become available or the cases proceed further.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table provides information about members of the senior management of our Company:

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Date of joining the Group</u> | <u>Roles and responsibilities</u> |
|------------------|------------|---|----------------------------------|--|
| LI Xiang (李想) | 39 | Executive Director, Chairman, Chief Executive Officer and Founder | April 2015 | Responsible for the overall strategy, product design, business development and management of our Company |
| SHEN Yanan (沈亞楠) | 43 | Executive Director and President | November 2015 | Responsible for the overall strategy, business development and supply chain management of our Company |
| LI Tie (李鐵) | 43 | Executive Director and Chief Financial Officer | July 2016 | Responsible for the overall strategy, the accounting, legal and internal controls functions, and the capital markets activities of our Company |
| MA Donghui (馬東輝) | 46 | Chief Engineer | September 2015 | Responsible for the research and development of our Company |
| WANG Kai (王凱) | 42 | Chief Technology Officer | September 2020 | Responsible for providing overall leadership in advanced technology research and development in smart vehicles |

DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Xiang (李想), aged 39, is our Founder, an executive Director, Chairman of the Board and the Chief Executive Officer of our Company. For further details, please see the paragraphs headed “—Executive Directors” in this section.

Mr. Shen Yanan (沈亞楠), aged 43, is an executive Director and the President of our Company. For further details, please see the paragraphs headed “—Executive Directors” in this section.

Mr. Li Tie (李鐵), aged 43, is an executive Director and the Chief Financial Officer of our Company. For further details, please see the paragraphs headed “—Executive Directors” in this section.

Mr. Ma Donghui (馬東輝), aged 46, has served as our Chief Engineer since September 2015, in charge of the research and development of our Company. Mr. Ma worked as dean of research institute at SANY Heavy Vehicle Body Co., Ltd. since June 2011. Prior to that, Mr. Ma worked as senior project manager at IAT Automobile Technology Co., Ltd. from June 2010 to June 2011. Mr. Ma served at Jianshi International Automotive Design (Beijing) Co., Ltd. from December 2003 to May 2010 with his last position as director of department of vehicle body.

Mr. Ma received a bachelor’s degree in power engineering from Wuhan University of Technology in 1999 and a master’s degree in mechanical manufacturing and automation from Shanghai University in 2003.

Mr. Wang Kai (王凱), aged 42, has served as our Chief Technology Officer since September 2020 and is responsible for providing overall leadership in advanced technology research and development in smart vehicles, including electronic and electrical architecture, intelligent cockpit, autonomous driving, computing platform development, and Li OS, the real-time operating system of our Company.

Prior to joining us, Mr. Wang worked for Visteon Corporation from November 2012 to September 2020 and served his last role as Visteon’s global chief architect and director of advanced driver assistance systems. From 2002 to 2012, Mr. Wang focused on core research and development in mobile communication, connectivity and design of application specific integrated circuit in world leading technology companies; his work experience in this field included senior hardware expert at Nokia Corporation since September 2006, hardware design engineer at Detection Technology from February 2005 to August 2006, hardware design engineer at Datang Microelectronics Technology Co., Ltd. (大唐微電子技術有限公司) from September 2004 to January 2005 and chip design engineer at Arca Technology Co., Ltd. (方舟科技有限公司) from July 2002 to August 2004.

Mr. Wang received a bachelor’s degree in microelectronic engineering from Beijing University of Technology and a master’s degree in industrial management from Helsinki Metropolia University of Applied Sciences. Since 2019, Mr. Wang has been an adjunct professor at the Tongji University in China.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Wang Yang (王揚) has been appointed as our joint company secretary with effect from May 5, 2021. Mr. Wang joined our Group in July 2020 as the director of capital markets. Prior to joining our Group, Mr. Wang was a founding partner of Winning Capital (盈嘉資本) from January 2018 to July 2020. At Winning Capital, he oversaw all departments and was responsible for the fund raising, investment, management and exit activities of the fund. From June 2012 and December 2017, Mr. Wang work at Noah China Holdings Group (諾亞中國控股集團) with his last position as the deputy general manager of the Shanghai wealth management center.

Mr. Wang received his master's degree in business administration in August 2010 from Northwood University.

Ms. Lau Yee Wa (劉綺華) has been appointed as our joint company secretary with effect from May 5, 2021. Ms. Lau is a Senior Manager of Corporate Services of Tricor Services Limited (“**Tricor**”), Asia's leading business expansion specialist. Ms. Lau has over 20 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Lau is currently the company secretary of five listed companies on the Main Board of the Hong Kong Stock Exchange, namely, BAIOO Family Interactive Limited (百奧家庭互動有限公司) (stock code: 2100), Meituan (美團) (stock code: 3690), Transmit Entertainment Limited (傳遞娛樂有限公司) (stock code: 1326), Jiayuan International Group Limited (佳源國際控股有限公司) (stock code: 2768) and Everest Medicines Limited (雲頂新耀有限公司) (stock code: 1952).

Ms. Lau is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly “The Institute of Chartered Secretaries and Administrators”). She obtained her bachelor's degree in administrative management from University of South Australia in April 2003.

CORPORATE GOVERNANCE

Audit Committee

Our audit committee is in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except for the terms of reference required by paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. However, the charter of our audit committee complies with the rules of Nasdaq and the rules of the SEC. The primary duties of the audit committee are, among other things, to monitor the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to our financial statements and accounting matters, review the adequacy of our internal control over financial reporting, and review all related party transactions for potential conflict of interest situations and approving all such transactions. The audit committee

DIRECTORS AND SENIOR MANAGEMENT

comprises three independent non-executive Directors, namely Mr. Zhao Hongqiang, Mr. Jiang Zhenyu and Prof. Xiao Xing. Mr. Zhao, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Compensation Committee

Our compensation committee is in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except for the terms of reference required by paragraph B.1.2 of the Corporate Governance Code. However, the charter of our compensation committee complies with the rules of Nasdaq. The primary duties of the compensation committee are to review and make recommendations to the Board of Directors with respect to director compensation, evaluate the performance of our Chief Executive Officer and Chief Financial Officer and review and make recommendations to the Board regarding the terms of their compensation, and review and approve the compensation of our other executive officers and senior management. The compensation committee comprises Mr. Li Xiang, Mr. Zhao Hongqiang and Mr. Jiang Zhenyu. Mr. Zhao is the chairman of the committee.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee complies with the requirements in respect of nomination committees in the Corporate Governance Code set out in Appendix 14 to the Listing Rules and with the requirements regarding corporate governance committees under Chapter 8A of the Listing Rules.

The primary duties of the nominating and corporate governance committee are, among other things:

- in respect of its nomination functions, to develop and recommend to the Board criteria for board and committee membership, recommend to the Board the persons to be nominated for election as Directors and to each of the Board's committees, and develop and recommend to the Board a set of corporate governance guidelines; and
- in respect of its corporate governance functions, to ensure that the Company is operated and managed for the benefit of all shareholders and to ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structures of the Company.

The nominating and corporate governance committee comprises Mr. Zhao Hongqiang, Mr. Jiang Zhenyu and Prof. Xiao Xing. Mr. Jiang is the chairman of the committee. For details of their experience in corporate governance related matters, please refer to their biographies in the sub-section headed "—Independent Non-executive Directors" above.

DIRECTORS AND SENIOR MANAGEMENT

In accordance with Rule 8A.30 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 of the Listing Rules, the corporate governance function of our nominating and corporate governance committee as set out in its terms of reference includes:

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
- (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report;
- (f) to review and monitor whether the Company is operated and managed for the benefit of all of its shareholders;
- (g) to confirm, on an annual basis, that the WVR Beneficiaries have been members of the Company's board of Directors throughout the year and that no matters under Rule 8A.17 of the Listing Rules have occurred during the relevant financial year;
- (h) to confirm, on an annual basis, whether or not the WVR Beneficiaries have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year;
- (i) to review and monitor the management of conflicts of interests and make a recommendation to the board of Directors on any matter where there is a potential conflict of interest between the Company, its subsidiary or consolidated affiliated entity and/or shareholder on one hand and any WVR Beneficiary on the other;
- (j) to review and monitor all risks related to the Company's WVR structure, including connected transactions between the Company and/or its subsidiary or consolidated affiliated entity on one hand and any WVR Beneficiary on the other and make a recommendation to the board of Directors on any such transaction;
- (k) to make a recommendation to the board of Directors as to the appointment or removal of the Compliance Adviser;
- (l) to seek to ensure effective and on-going communication between the Company and its shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules; and

DIRECTORS AND SENIOR MANAGEMENT

- (m) to report on the work of the corporate governance committee on at least a half-yearly and annual basis covering all areas of its terms of reference, including disclosing, on a comply or explain basis, its recommendations to the Board in respect of the matters in items (i) to (k) above.

Pursuant to Rule 8A.32 of the Listing Rules, the Corporate Governance Report prepared by our Company for inclusion in our interim and annual reports after Listing will include a summary of the work of the corporate governance committee for the relevant period.

Role of our Independent Non-executive Directors

Pursuant to Rule 8A.26 of the Listing Rules, the role of the independent non-executive directors of a listed company with WVR structure must include, but is not limited to, the functions described in code provisions A.6.2, A.6.7 and A.6.8 of the Corporate Governance Code. The functions of our independent non-executive Directors include:

- (a) to participate in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) to take the lead where potential conflicts of interests arise;
- (c) to serve on the audit, compensation, nominating and corporate governance committees and other governance committees, if invited;
- (d) to scrutinize our Company's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting;
- (e) to give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation;
- (f) to make a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments; and
- (g) to attend general meetings and developing a balanced understanding of the views of our Shareholders.

Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, save as disclosed below, we expect to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules after the Listing.

DIRECTORS AND SENIOR MANAGEMENT

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairperson and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Li Xiang currently performs these two roles. The Board believes that vesting the roles of both chairperson and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company if and when it is appropriate taking into account the circumstances of the Group as a whole. For further information relating to the Company's corporate governance measures, please see the section headed "Relationship with the Controlling Shareholders—Corporate Governance Measures."

Management Presence

According to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since the principal business operations of our Group are conducted in Mainland China, members of our senior management are, and are expected to continue to be, based in Mainland China. Further, as our executive Directors have a vital role in our Group's operations, it is crucial for them to remain in close proximity to our Group's central management located in Mainland China. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. We have applied for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, see "Waivers and Exemptions—Management presence in Hong Kong."

Board Diversity

Our Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board. Our Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. Pursuant to the board diversity policy, in reviewing and assessing suitable candidates to serve as a director of the Company, the nominating and corporate governance committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional

DIRECTORS AND SENIOR MANAGEMENT

experience. Pursuant to the board diversity policy, the nominating and corporate governance committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

DIRECTORS' REMUNERATION

Our Directors and senior management receive remuneration, including salaries, allowances and benefits in kind, performance related bonuses, share-based compensation and our contribution to the pension scheme on their behalf.

The aggregate amount of remuneration (including salaries, allowances and benefits in kind, performance related bonuses, share-based compensation and pension scheme contributions, as applicable) for our Directors for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021 was RMB5.2 million, RMB5.5 million, RMB64.4 million, RMB1.4 million and RMB22.7 million, respectively. Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2021, is expected to be RMB92.4 million in aggregate (excluding discretionary bonus).

The aggregate amount of remuneration (including salaries, allowances and benefits in kind, performance related bonuses, share-based compensation and pension scheme contributions, as applicable) for the five highest paid individuals for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021 was RMB8.3 million, RMB9.6 million, RMB94.0 million, RMB2.2 million and RMB50.6 million, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021 by our Company to our Directors. No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

See paragraphs headed “Statutory and General Information—Share Incentive Plans” in Appendix IV for details regarding the incentive plans for our Directors and the senior management.

DIRECTORS AND SENIOR MANAGEMENT

Grant of CEO Award

On March 8, 2021, the Board and the compensation committee of the Board adopted the 2021 Plan. The maximum number of Class B Ordinary Shares that may be issued pursuant to all awards under the 2021 Plan is 108,557,400. The principal terms of which are set out in paragraphs headed “Statutory and General Information—Share Incentive Plans” in Appendix IV to this document.

On March 8, 2021, our Company granted an option to purchase 108,557,400 Class B Ordinary Shares to Mr. Li Xiang (the “**CEO Award**”), our Chairman of the Board, executive Director and Chief Executive Officer, under the 2021 Plan. The date of expiration for the CEO Award was March 8, 2031. The exercise price of the options was US\$14.63 per share, which was the average per-share closing price of our ADSs, each representing two Class A Ordinary Shares, in the 30 trading days immediately prior to the grant date, as reported by the Nasdaq Global Select Market. The options were divided into six equal tranches of 18,092,900 each and subject to the same vesting conditions as the Performance Conditions described below.

On May 5, 2021, the Board resolved to change the form of CEO Award from options to an award of 108,557,400 Class B Ordinary Shares. Such Class B Ordinary Shares vested and were duly issued to Amp Lee Ltd. as registered legal and beneficial owner on May 5, 2021. On the same day, all of the options granted under the CEO Award (none of which vested or were exercised) were terminated and cancelled. Pursuant to a conversion notice submitted by Mr. Li to the Board dated July 26, 2021 and the written resolutions passed by the Board on July 27, 2021, all such 108,557,400 Class B Ordinary Shares will be converted to 108,557,400 Class A Ordinary Shares (i.e. the CEO Award Shares) on one-to-one basis with effect immediately upon the Listing.

Under the terms of the CEO Award, Mr. Li has agreed that the CEO Award Shares shall be subject to certain restrictions, terms and conditions as described further below.

The CEO Award Shares are divided into six equal tranches of 18,092,900 Class B Ordinary Shares each which will be converted to Class A Ordinary Shares on one-to-one basis with effect immediately upon the Listing pursuant to the conversion notice mentioned above. Each such tranche of CEO Award Shares has a related condition that our aggregate number of vehicle deliveries in any 12 consecutive months is equal to or exceeds 0.5 million, 1 million, 1.5 million, 2 million, 2.5 million and 3 million vehicles, respectively (the “**Performance Condition**”). In the event that a Performance Condition is met for a given tranche of CEO Award Shares, Mr. Li will pay to our Company a premium in respect of the relevant CEO Award Shares of US\$14.63 per share (the “**Award Premium**”), which was the average per-share closing price of our ADSs, each representing two Class A Ordinary Shares, in the 30 trading days immediately prior to March 8, 2021, as reported by the Nasdaq Global Select Market.

DIRECTORS AND SENIOR MANAGEMENT

Pursuant to the grant of the CEO Award, Mr. Li has undertaken and covenanted that unless and until, in respect of any tranche of CEO Award Shares, (a) the relevant Performance Condition has been met, and (b) the relevant Award Premium has been paid, he will not:

- (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any interest in the relevant CEO Award Shares;
- (ii) cast a vote representing the relevant CEO Award Shares at any shareholder meeting of our Company or written resolution of shareholders of our Company; or
- (iii) claim a right to receive any dividend in respect of the relevant CEO Award Shares.

Any CEO Award Shares in respect of which the Performance Condition has not been met and Award Premium not paid shall immediately be subject to compulsory repurchase by our Company at par value after the first to occur of the following events: (a) the expiration date of the CEO Award, being March 8, 2031; (b) Mr. Li ceasing to hold the position of Chief Executive Officer, Chairman of the Board of Directors, chief products officer or similar key position in our Group; (c) termination of Mr. Li's service for any reason; and (d) any material breach by Mr. Li of the codes of conduct as specified in our employees handbook. Accordingly, Mr. Li's voting rights in our Company may decrease after the Listing if the relevant CEO Award Shares are repurchased and cancelled upon the occurrence of such events.

The terms and conditions of the CEO Award are stipulated in the 2021 Plan and the grant letter of the CEO Award Shares and our Board or a committee of one or more members of the Board administers the 2021 Plan. A summary of the scheme rules of the 2021 Plan is set out in the section headed "Statutory and General Information—Share Incentives Plans—The 2021 Plan". The Company will monitor Mr. Li's compliance with the restrictions described above through a number of measures, including: (a) the compensation committee of the Board, which must be chaired by an independent non-executive Director and comprise of a majority of independent non-executive Directors in accordance with the Listing Rules, with Mr. Li recusing himself if he is a member of the compensation committee, shall monitor Mr. Li's compliance with the restrictions on the CEO Award Shares and discuss and confirm such compliance at least once annually during the committee meeting; (b) the Company shall instruct its representative or scrutineer engaged for vote-taking at general meetings to ensure votes casted in respect of the CEO Award Shares, if any, shall be disregarded, unless and until the Performance Condition and the Award Premium have been fulfilled in respect of the relevant CEO Award Shares; (c) the Company shall instruct its finance team to ensure no dividend shall be paid in respect of any of the CEO Award Shares, unless and until the Performance Condition and the Award Premium have been fulfilled in respect of the relevant CEO Award Shares; and (d) the Company shall instruct its Principal Share Registrar or its Hong Kong Share Registrar (as applicable) not to register any change of ownership in the CEO Award Shares, unless and until the Performance Condition and the Award Premium have been fulfilled in respect of the relevant CEO Award Shares.

DIRECTORS AND SENIOR MANAGEMENT

Pursuant to the grant letter of the CEO Award, any dispute or claim arising out of or relating to the grant letter shall be referred to arbitration in Hong Kong in a proceeding by one arbitrator from the Hong Kong International Arbitration Centre (the “**HKIAC**”) in accordance with the Hong Kong International Arbitration Centre Administered Arbitration Rules (the “**HKIAC Rules**”) in force when the arbitration notice is submitted.

The terms of the CEO Award were arrived at after careful deliberation by the compensation committee of the Board (with Mr. Li recusing himself) taking into account advice of an independent professional advisory firm. The vesting conditions of the CEO Award Shares are 100% performance-based and provides no rewards to Mr. Li simply by the passage of time. The main rationale for the CEO Award include:

- (a) to recognize and reward Mr. Li’s significant contribution to the Company;
- (b) to incentivize Mr. Li to lead the Company to greater business results and to further align his interests with the mid- to long-term goals of the Company as well as the interest of the other shareholders of the Company;
- (c) to ensure Mr. Li’s continued leadership of the Company to promote greater stability in the management of the Company; and
- (d) the performance-based vesting conditions demonstrate the aspirations of the Company.

COMPLIANCE ADVISOR

We have appointed Somerley Capital Holdings Limited as our compliance advisor (the “**Compliance Advisor**”) pursuant to Rule 8A.33 of the Listing Rules. The Compliance Advisor will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rules 3A.23 and 8A.34 of the Listing Rules, the Compliance Advisor will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this document or where the business activities, development or results of our Company deviate from any forecast, estimate or other information in this document;

DIRECTORS AND SENIOR MANAGEMENT

- (d) where the Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules;
- (e) the WVR structure;
- (f) transactions in which any beneficiary of weighted voting rights in the Company has an interest; and
- (g) where there is a potential conflict of interest between the Company, its subsidiary and/or Shareholders (considered as a group) on one hand and any beneficiary of weighted voting rights in the Company on the other.

The term of appointment of the Compliance Advisor shall commence on the Listing Date. Pursuant to Rule 8A.33 of the Listing Rules, the Company is required to engage a compliance advisor on a permanent basis.

COMPETITION

Each of the Directors confirms that as of the Latest Practicable Date, save as disclosed in this document, he or she did not have any interest in a business which materially competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business—Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of HK\$14.7 billion after deducting underwriting discounts and commissions and estimated offering expenses payable by us in the Global Offering, assuming no Over-allotment Option is exercised and based on the indicative offer price of HK\$150.00 per Offer Share, or HK\$16.9 billion if the Over-allotment Option is exercised in full.

In line with our strategies, we intend to use the net proceeds from the Global Offering for the following purposes:

- 45% of the net proceeds, or approximately HK\$6.6 billion, allocated to research and development in the next 12 to 36 months as follows:
 - (i) 20% of the net proceeds, or approximately HK\$2.9 billion, to fund the research and development of HPC BEV technologies, platforms, and future models, including to fund:
 - (a) the development of high C-rate battery, high-voltage platform, and ultra-fast charging technologies, that are necessary for the launch of HPC BEVs. We plan to develop a high C-rate battery to balance cost, longevity, safety, and charging and discharging rate. We are also developing key parts and components of the high-voltage platform, such as the battery pack, battery management system (BMS) application software, electric drive unit (EDU) integration and software, thermal management systems, and other software;
 - (b) the development of our HPC BEV platforms, including Whale and Shark platforms, which are foundation platforms for our future HPC BEV models; and
 - (c) the development and launch of two HPC BEV models planned for 2023. Our future HPC BEV models would deliver superior charging experience with a significantly shorter charging time. These new HPC BEV models will also allow us to offer more vehicle options within our target price range. We plan to continue to recruit more research and development employees with HPC BEV expertise and partner with our suppliers for vehicle design, validation, and testing;

FUTURE PLANS AND USE OF PROCEEDS

- (ii) 15% of the net proceeds, or approximately HK\$2.2 billion, to fund the research and development of intelligent vehicle and autonomous driving technologies, including to fund:
 - (a) the enhancement of intelligent vehicle systems, key technologies for next-generation electrical/electronic architecture (EEA) , such as central domain computing platforms, generic zonal domain controller, and ultra-low latency real-time operating system;
 - (b) the enhancement of the current Level 2 autonomous driving technology and the development of the Level 4 autonomous driving technology. We plan to further enhance the Level 2 autonomous driving of our current model through hardware upgrade and software improvement and to equip our future models with necessary hardware compatible with Level 4 autonomous driving as a standard configuration. We plan to continue to optimize our autonomous driving solutions leveraging our full-stack proprietary software development capabilities. We plan to equip our full-size premium smart extended-range electric SUV planned for 2022 with Level 4 autonomous driving hardware as a standard configuration, including the powerful NVIDIA Orin-X SoC chipset with 508 trillion operations per second, high-definition cameras, LiDAR system, millimeter-wave radars, and safety redundant electronic architecture and chassis control system. Intelligent vehicles and autonomous driving technologies present the future trends of the NEV market that we believe are essential for us to attract and retain users and offer superior driving and riding experience for our users. We plan to recruit more algorithm and software engineers for in-house development of the full-stack ADAS and autonomous driving solutions and partner with leading hardware partners to develop the hardware adaptable for our ADAS and autonomous driving solutions;

FUTURE PLANS AND USE OF PROCEEDS

- (iii) 10% of the net proceeds, or approximately HK\$1.5 billion, to fund the research and development of future EREV models in the next 12 to 30 months, including to fund (a) the development of a next-generation EREV platform. Our X platform, which will succeed the existing EREV platform for Li ONE, is planned to be equipped with our next-generation EREV powertrain system; and (b) the development and launch of a new EREV model planned for 2022 and two more planned for 2023. With our next-generation EREV technologies, we aim to support longer range, higher thermal efficiency, and better NVH performance of our EREVs. We plan to enhance the integration of the range extension system and the electric motors to support higher electric power output and better acceleration performance. We also plan to leverage a world-class chassis to support a larger vehicle body and provide optimal driving experience and superior vehicle passing capability. The performance enhancement is expected to enable our products to remain competitive and attract more users;

We plan to recruit more research and development employees for the development of our next generation EREV platform.

- 45% of the net proceeds, or approximately HK\$6.6 billion, to fund infrastructure expansion and marketing and promotion in the next 12 to 36 months as follows:
 - (i) 25% of the net proceeds, or approximately HK\$3.7 billion, to fund the expansion of production capacity. We plan to develop our manufacturing technologies and build a new factory for the production of new vehicles and procurement of relevant machinery for vehicle production:
 - (a) To further expand our production capacity and support our increasing vehicle sales volume with future models, we are planning to construct the manufacturing of EREV platform and HPV BEV platform. The production base will house a broad range of functions, including, among others, manufacturing and vehicle testing. We expect to incur capital expenditures primarily on the construction of production plants and purchase of equipment in relation to our new manufacturing facility, as well as mold and tooling for new vehicle models;
 - (b) For the existing Changzhou plant, we plan to continuously upgrade and invest in equipment and technological systems to further optimize operating efficiency and product quality. We are planning on the reconfiguration of our Changzhou factory for our new model pipeline, especially the full-size premium SUV based on the X platform to be launched in 2022; and

FUTURE PLANS AND USE OF PROCEEDS

- (c) We will continue to research and develop advanced manufacturing technologies to enhance the level of automation and ensure better product quality;
- (ii) 10% of the net proceeds, or approximately HK\$1.5 billion, to fund the expansion of retail stores and delivery and servicing centers. We plan to open more retail stores and delivery and servicing centers in cities with great sales potentials for our products. We plan to increase the density of our stores in top-tier cities and expand our footprint in selected lower tier cities in China. We plan to open retail stores and delivery and servicing centers as on-the-ground outposts for our users mainly through our direct sales model. We plan to authorize and cooperate with third-party body and paint shops to efficiently and effectively extend our service coverage. In the medium term, we plan to double the number of our retail stores;
- (iii) 5% of the net proceeds, or approximately HK\$0.7 billion, to fund the roll-out of HPC network. We plan to open and maintain HPC charging network in targeted areas, in order to provide accessible charging facilities for our future HPC BEV models:
 - (a) Co-development of HPC charging facilities: co-develop charging stations and energy storage productions based on the definition of HPC charging products that are compatible with BEV platform models, including research and development, procurement of testing equipment, and mold and tooling;
 - (b) Laying out HPC charging network: targeting high-frequency usage scenarios by users such as highways and urban areas, we plan to roll-out HPC charging stations in various cities across China and begin setting up charging facilities, procuring charging equipment, obtaining resources and materials for the charging stations, and further investing to enhance charging stations;

and

- (iv) 5% of the net proceeds, or approximately HK\$0.7 billion, to fund marketing and promotion. We plan to launch marketing campaigns and advertising through social media to promote our brand and products. For marketing campaigns, we plan to increase the amount of our branding advertisements to further enhance awareness of our brand as well as to participate in more auto shows to increase our brand exposure. We also plan to organize more offline events, including test drives and community activities for users, to promote our

FUTURE PLANS AND USE OF PROCEEDS

new functions and improve user engagement. For social media advertising, we plan to focus on creating content for marketing on new media and short-video social media platforms with the goal of increasing our product exposure and building our reputation;

and

- 10% of the net proceeds, or approximately HK\$1.5 billion, for working capital and other general corporate purposes to support our business operation and growth in the next 12 months.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we may hold such funds in bank deposits at authorized financial institutions and/or licensed banks. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

UNDERWRITING

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.
China International Capital Corporation Hong Kong Securities Limited
UBS AG Hong Kong Branch
CLSA Limited
BOCI Asia Limited
CMB International Capital Limited
Futu Securities International (Hong Kong) Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the pricing of the Offer Shares is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 10,000,000 Hong Kong Offer Shares and the International Offering of initially 90,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the **GREEN** Application Form and the Hong Kong Underwriting Agreement at the Public Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Class A Ordinary Shares in issue, to be issued or issuable as mentioned in this prospectus on the Main Board of the Stock Exchange and such approval not having been subsequently withdrawn or revoked and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the **GREEN** Application Form and the Hong Kong Underwriting Agreement.

UNDERWRITING

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

If any of the events set out below occur at any time prior to 8:00 a.m. on the Listing Date, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect:

- (i) there shall develop, occur, exist or come into force:
 - (a) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national, regional or international emergency or war, calamity, crisis, epidemic, pandemic, large-scale outbreaks, escalation or aggravation of diseases (including, without limitation, COVID-19, SARS, swine or avian flu, H5N1, H1N1, H7N9 and such related/mutated forms), economic sanctions, strikes, labour disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)) in or affecting Hong Kong, the PRC, the Cayman Islands, the United States, the United Kingdom or the European Union (or any member thereof) (collectively, the “**Relevant Jurisdictions**”);
 - (b) any change or development involving a prospective change, or any event or circumstances or series of events likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, currency, credit or market matters or conditions, equity securities or exchange control or any monetary or trading settlement system or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions;
 - (c) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq, the Shanghai Stock Exchange or the Shenzhen Stock Exchange;
 - (d) a suspension or material limitation in trading in the Company’s securities on the Nasdaq;

UNDERWRITING

- (e) any general moratorium on commercial banking activities in or affecting any of the Relevant Jurisdictions (declared by the relevant authorities) or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions;
- (f) any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any event or circumstance or series of events likely to result in any change or development involving a prospective change in the interpretation or application thereof by any court or any governmental or regulatory authority in or affecting any of the Relevant Jurisdictions;
- (g) any change or development involving a prospective change or amendment in or affecting taxation or foreign exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar, United States dollar or RMB against any foreign currency, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or RMB is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions or adversely affecting an investment in the Offer Shares;
- (h) other than with the prior written consent of the Joint Sponsors and the Joint Global Coordinator, the issue or requirement to issue by the Company of a supplement or amendment to this prospectus, the **GREEN** Application Form or other documents in connection with the offer and sale of the Offer Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange and/or the SFC;
- (i) any litigation, dispute, legal action or claim being threatened or instigated against any member the Group or any Directors;
- (j) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;
- (k) the chairman, chief executive officer or any executive Director vacating his or her office;
- (l) any Director is being charged with an indictable offence or is prohibited by operation of Laws (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking directorship of a company;

UNDERWRITING

- (m) there is any order or petition for the winding-up or liquidation of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group;
- (n) any contravention by the Company, any member of the Group or any Directors of any applicable laws and regulations including the Listing Rules; or
- (o) any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws and regulations,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (A) has or will or is likely to have a material adverse effect (the “**Material Adverse Effect**”) on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company or the other members of the Group as a whole; (B) has or will or may have a material adverse effect on the completion of the Global Offering; or (C) makes, or will make or is likely to make it impracticable or incapable for the Hong Kong Public Offering and/or the International Offering to proceed or to market the Global Offering or the delivery or distribution of Offer Shares on the terms and in the manner contemplated by this prospectus; or (D) has or will or is likely to have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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- (ii) there has come to the notice of the Joint Global Coordinators:
- (a) any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the Operative Documents (as defined in the Hong Kong Underwriting Agreement), the Preliminary Prospectus (as defined in the Hong Kong Underwriting Agreement), and/or any notices, announcements, advertisements, communications or other documents (including any announcement, circular, document or other communication pursuant to the Hong Kong Underwriting Agreement) issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering and the Global Offering (including any supplement or amendment thereto (the **“Offer-Related Documents”**)) but excluding factual information solely relating to the Underwriters which consists of only the Underwriters’ names, logos and addresses) was, when it was issued, or has become, untrue, incorrect, inaccurate, incomplete in any material respects or misleading or deceptive, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is not fair and honest and based on reasonable grounds or reasonable assumptions;
 - (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from, or misstatement in, any of the Offer-Related Documents;
 - (c) there is a material breach of any of the obligations imposed upon the Company under the Hong Kong Underwriting Agreement;
 - (d) there is an event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities given by it under the Hong Kong Underwriting Agreement;
 - (e) there is any Material Adverse Effect;
 - (f) there is a breach of, or any event or circumstances rendering untrue, incorrect, incomplete or misleading in any respect, any of the warranties given by the Company in the Hong Kong Underwriting Agreement;
 - (g) the approval of the Listing Committee of the listing of, and permission to deal in, (i) the Class A Ordinary Shares in issue and to be issued pursuant to the Global Offering (including the additional Class A Ordinary Shares which may be issued pursuant to the exercise of the Over-allotment Option); (ii) the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans; (iii) the Class A Ordinary Shares to be issued pursuant to the conversion of the 2028 Notes; and (iv) the Class A Ordinary Shares that are issuable upon conversion of the Class B Ordinary Shares on a one to one basis on the Main Board of the Stock Exchange is refused or not granted, other than subject to customary

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conditions, on or before the date of the Listing, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld;

- (h) any of the experts specified in this prospectus (other than the Joint Sponsors) has withdrawn its consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (i) there is a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares (including any additional Class A Ordinary Shares to be issued pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that it will not exercise its power to issue any further Shares, or securities convertible into equity securities of the Company (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering (including the Over-allotment Option) or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to each of the Stock Exchange, the Joint Sponsors and our Company that, save as disclosed in this prospectus and except pursuant to the Global Offering (including the Over-allotment Option), each of them will not, and will procure that the relevant registered holders of the Shares controlled by them will not:

- (i) at any time in the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in which any of the Controlling Shareholders are shown in this prospectus to be the beneficial owners; and

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- (ii) at any time in the period of six months commencing from the date on which the period referred to in the above paragraph (a) expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares which the Controlling Shareholders are shown in this prospectus to be the beneficial owners to such extent that, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders will, directly or indirectly cease to be our Controlling Shareholders,

provided that the above shall not prevent them from using securities of the Company beneficially owned by them as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong) for a bona fide commercial loan.

Each of our Controlling Shareholders has further undertaken to the Stock Exchange and to our Company respectively that, within the period commencing from the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will immediately inform the Company and the Stock Exchange in writing of:

- (i) any pledge(s) or charge(s) of any Shares beneficially owned by it directly or indirectly in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan as permitted under the Listing Rules, and the number of such Shares so pledged or charged; and
- (ii) any indication(s) received by it, either verbal or written, from any pledgee or chargee of any Shares pledged or charged that any of such Shares will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by anyone of our Controlling Shareholders and disclose such matters in accordance with the then applicable requirements under the Listing Rules as soon as possible after being so informed.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by the Company

Pursuant to the Hong Kong Underwriting Agreement, the Company undertakes to each of the Hong Kong Underwriters, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Joint Sponsors that, except for (i) the issue, offer or sale of the Offer Shares by the Company pursuant to the Global Offering (including pursuant to the Over-allotment Option), (ii) the issue of any Class A Ordinary Shares pursuant to the Share Incentive Plans as disclosed in this prospectus, (iii) the conversion of the 2028 Notes as

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disclosed in this prospectus, (iv) the conversion of the Class B Ordinary Shares as disclosed in this prospectus, and (v) any capitalization issue, capital reduction or consolidation or sub-division of Shares, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), that it will not, and will procure each other member of the Group will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules or pursuant to the exceptions set out in Rule 10.08 of the Listing Rules:

- (a) offer, allot, issue, sell, accept subscription for, contract to allot, issue or sell, offer or agree to allot, issue or sell, assign, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, right or contract to purchase or to purchase any option, warrant, right or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (the “**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interest in any Shares or other securities of the Company, or any interests in any of the foregoing (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership (legal or beneficial) of any Shares or other securities of the Company or any interest therein (including, without limitation, any securities of which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) and (b) above; or
- (d) offer to or contract to or agree to, or publicly announce any intention to enter into any transaction described in paragraphs (a), (b) and (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) and (c) above is to be settled by delivery of Shares or other securities of the Company, in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period).

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International Offering

International Underwriting Agreement

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering—The International Offering.”

Over-allotment Option

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which we may be required to issue up to an aggregate of 15,000,000 Class A Ordinary Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the International Offer Price, to cover over-allocations in the International Offering, if any. See “Structure of the Global Offering—Over-allotment Option.”

Commissions and Expenses

The Underwriters will receive an underwriting commission of 1.25% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

The Underwriters may receive a discretionary incentive fee of up to 0.30% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

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The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$297.9 million (assuming an indicative offer price of HK\$150.00 per Offer Share for both Hong Kong Public Offering and International Offering), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) and will be paid by us.

Indemnity

The Company has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Class A Ordinary Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Class A Ordinary Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Class A Ordinary Shares (which financing may be secured by the Class A Ordinary Shares) in the Global Offering, proprietary trading in the Class A Ordinary Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Class A Ordinary Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities

UNDERWRITING

involving, directly or indirectly, the buying and selling of the Class A Ordinary Shares, which may have a negative impact on the trading price of the Class A Ordinary Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Class A Ordinary Shares, in baskets of securities or indices including the Class A Ordinary Shares, in units of funds that may purchase the Class A Ordinary Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Class A Ordinary Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Class A Ordinary Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking, lending and other services to the Company, its Directors and certain of their affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The listing of the Class A Ordinary Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Class A Ordinary Shares in issue, to be issued or issuable as mentioned in this prospectus on the Main Board of the Stock Exchange.

100,000,000 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 10,000,000 Class A Ordinary Shares (subject to reallocation) in Hong Kong as described in the sub-section “The Hong Kong Public Offering” in this section below; and
- (b) the International Offering of an aggregate of initially 90,000,000 Class A Ordinary Shares (subject to adjustment and the Over-allotment Option) pursuant to the registration statement on Form F-3 that was filed with the SEC on August 2, 2021, including the preliminary prospectus supplement dated August 2, 2021 and the final prospectus supplement to be filed with SEC on or about August 6, 2021.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 4.87% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans or pursuant to the conversion of the 2028 Notes. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 5.56% of the total Shares in issue immediately following the completion of the Global Offering and the full exercise of the Over-allotment Option (without taking into account the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans or pursuant to the conversion of the 2028 Notes).

References in this prospectus to applications, **GREEN** Application Form, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 10,000,000 Offer Shares for subscription by the public in Hong Kong at the Public Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.49% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans or pursuant to the conversion of the 2028 Notes).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the sub-section headed “Conditions of the Global Offering” in this section.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

STRUCTURE OF THE GLOBAL OFFERING

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Public Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 5,000,000 Hong Kong Offer Shares is liable to be rejected.

Reallocation and Clawback

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange require a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if the Offer Shares under the International Offering are fully subscribed or oversubscribed and certain prescribed total demand levels in the Hong Kong Public Offering are reached:

- (i) 10,000,000 Offer Shares are initially available in the Hong Kong Public Offering, representing approximately 10% of the Offer Shares initially available under the Global Offering;

in the event that the International Offer Shares are fully subscribed or over-subscribed:

- (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 30,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 40,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

STRUCTURE OF THE GLOBAL OFFERING

- (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 50,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offer Shares to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEx-GL91-18 issued by the Hong Kong Stock Exchange, if such allocation is done other than pursuant to Practice Note 18 of the Hong Kong Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 20,000,000 Offer Shares, representing 20% of the total number of Offer Shares initially available under the Global Offering).

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Hong Kong Public Offering which is expected to be published on Wednesday, August 11, 2021.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offering are required to pay, on application, HK\$150.00 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$15,151.16 for one board lot of 100 Offer Shares. If the Public Offer Price, as finally determined in the manner described in the sub-section headed “Pricing and Allocation” in this section below, is less than the maximum Public Offer Price of HK\$150.00 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 90,000,000 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 4.39% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans or pursuant to the conversion of the 2028 Notes).

Allocation

The International Offering includes the U.S. offering of the Offer Shares in the United States as well as the non-U.S. offering to institutional and professional investors and other investors in jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in sub-section headed “Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Class A Ordinary Shares and/or hold or sell its Class A Ordinary Shares after the Listing. Such allocation is intended to result in a distribution of the Class A Ordinary Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

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The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the subsection “The Hong Kong Public Offering—Reallocation and Clawback” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to issue up to an aggregate of 15,000,000 additional Class A Ordinary Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the International Offer Price under the International Offering to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 0.73% of the total Shares in issue immediately following the completion of the Global Offering, without taking into account the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans or pursuant to the conversion of the 2028 Notes. If the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such

STRUCTURE OF THE GLOBAL OFFERING

transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Public Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Class A Ordinary Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

In addition, stabilization transactions with respect to the ADSs may be effected by one of the Underwriters or its affiliates before and after the listing of the Class A Ordinary Shares on the Stock Exchange in accordance with applicable laws and regulations.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Class A Ordinary Shares, (b) selling or agreeing to sell the Class A Ordinary Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Class A Ordinary Shares, (c) purchasing, or agreeing to purchase, the Class A Ordinary Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Class A Ordinary Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Class A Ordinary Shares, (e) selling or agreeing to sell any Class A Ordinary Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Class A Ordinary Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Class A Ordinary Shares;

STRUCTURE OF THE GLOBAL OFFERING

- (d) no stabilizing action can be taken to support the price of the Class A Ordinary Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Sunday, September 5, 2021, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Class A Ordinary Shares, and therefore the price of the Shares, could fall;
- (e) the price of the Class A Ordinary Shares cannot be assured to stay at or above the Public Offer Price by the taking of any stabilizing action; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Public Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Class A Ordinary Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Class A Ordinary Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Public Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

Stock Borrowing Agreement

To cover any over-allocation of Class A Ordinary Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 15,000,000 Class A Ordinary Shares (being the maximum number of Class A Ordinary Shares which may be issued pursuant to the exercise of the Over-allotment Option) from Inspired Elite Investments Limited pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and Inspired Elite Investments Limited on or before the Price Determination Date.

The same number of Class A Ordinary Shares so borrowed must be returned to Inspired Elite Investments Limited or its nominees, as the case may be, on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Over-allotment Option is exercised in full.

STRUCTURE OF THE GLOBAL OFFERING

The Class A Ordinary Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Inspired Elite Investments Limited by the Stabilizing Manager (or any person acting for it) in relation to such Class A Ordinary Shares borrowing arrangement.

PRICING AND ALLOCATION

Determining the Offer Price

The pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be determination on the Price Determination Date, which is expected to be on or about Friday, August 6, 2021 and, in any event, no later than Tuesday, August 10, 2021, by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on Nasdaq on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at www.nasdaq.com/market-activity/stocks/li), and the Public Offer Price will not be more than HK\$150.00 per Hong Kong Offer Share. The historical prices of our ADSs and trading volume on Nasdaq are set out below:

| Period ⁽¹⁾ | High | Low | ADTV ⁽²⁾ |
|---|-------|-------|---------------------|
| | US\$ | US\$ | million ADSs |
| Fiscal year ended December 31, 2020 (since July 30, 2020) | 43.96 | 14.60 | 19.01 |
| Fiscal year of 2021 (up to the Latest Practicable Date) | 36.75 | 17.01 | 16.28 |

Source: Bloomberg

Notes:

- (1) We have not declared or paid any dividends on our ADSs or Shares since our inception and up to the Latest Practicable Date, including the periods presented.
- (2) Average daily trading volume ("ADTV") represents daily average number of our ADSs traded over the relevant period.

Applicants under the Hong Kong Public Offering must pay, on application, the maximum Public Offer Price of HK\$150.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK\$15,151.16 for one board lot of 100 Class A Ordinary Shares.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the Nasdaq on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this prospectus

STRUCTURE OF THE GLOBAL OFFERING

and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with our consent, reduce the number of Offer Shares offered below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on our website and the website of the Hong Kong Stock Exchange at ir.lixiang.com and www.hkexnews.hk, respectively, notices of the reduction.

Upon the issue of such a notice, the revised number of Offer Shares will be final. If the number of Offer Shares is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

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The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares—Publication of Results” in this prospectus.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company agreeing on the pricing of the Offer Shares.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Class A Ordinary Shares in issue, to be issued or issuable as mentioned in this prospectus on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- (b) the pricing of the Offer Shares having been agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company;
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the pricing of the Offer Shares is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company on or before Tuesday, August 10, 2021, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the websites of the Company and the Stock Exchange at ir.lixiang.com and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares—Refund of Application Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Thursday, August 12, 2021, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE CLASS A ORDINARY SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, August 12, 2021, it is expected that dealings in the Class A Ordinary Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, August 12, 2021.

The Class A Ordinary Shares will be traded in board lots of 100 Class A Ordinary Shares each and the stock code of the Class A Ordinary Shares will be 2015.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS:

FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at ir.lixiang.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

A. APPLICATIONS FOR HONG KONG OFFER SHARES

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

- (1) apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input

HOW TO APPLY FOR HONG KONG OFFER SHARES

electronic application instructions for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Joint Global Coordinators, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older; and
- have a Hong Kong address.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules or any relevant waivers that have been granted by the Hong Kong Stock Exchange, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;
- you are our Director or chief executive and/or a director or chief executive officer of our subsidiaries;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- you are a close associate of any of the above persons;
- you are a core connected person of the Company or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering; or
- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Joint Global Coordinators (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Act;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- agree that none of us, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “—Personal Collection” below to collect the share certificate(s) and/or refund check(s) in person;

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- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that we, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 100 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

| No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application |
|--|-------------------------------------|--|-------------------------------------|--|-------------------------------------|--|-------------------------------------|
| | HK\$ | | HK\$ | | HK\$ | | HK\$ |
| 100 | 15,151.16 | 2,000 | 303,023.10 | 10,000 | 1,515,115.50 | 80,000 | 12,120,924.00 |
| 200 | 30,302.31 | 2,500 | 378,778.88 | 15,000 | 2,272,673.25 | 90,000 | 13,636,039.50 |
| 300 | 45,453.47 | 3,000 | 454,534.65 | 20,000 | 3,030,231.00 | 100,000 | 15,151,155.00 |
| 400 | 60,604.62 | 3,500 | 530,290.43 | 25,000 | 3,787,788.75 | 200,000 | 30,302,310.00 |
| 500 | 75,755.78 | 4,000 | 606,046.20 | 30,000 | 4,545,346.50 | 400,000 | 60,604,620.00 |
| 600 | 90,906.93 | 4,500 | 681,801.98 | 35,000 | 5,302,904.25 | 600,000 | 90,906,930.00 |
| 700 | 106,058.09 | 5,000 | 757,557.75 | 40,000 | 6,060,462.00 | 800,000 | 121,209,240.00 |
| 800 | 121,209.24 | 6,000 | 909,069.30 | 45,000 | 6,818,019.75 | 1,000,000 | 151,511,550.00 |
| 900 | 136,360.40 | 7,000 | 1,060,580.85 | 50,000 | 7,575,577.50 | 2,000,000 | 303,023,100.00 |
| 1,000 | 151,511.55 | 8,000 | 1,212,092.40 | 60,000 | 9,090,693.00 | 3,000,000 | 454,534,650.00 |
| 1,500 | 227,267.33 | 9,000 | 1,363,603.95 | 70,000 | 10,605,808.50 | 5,000,000 ⁽¹⁾ | 757,557,750.00 |

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in “—Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

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Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Tuesday, August 3, 2021 until 11:30 a.m. on Friday, August 6, 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, August 6, 2021, the last day for applications, or such later time as described in “Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Commitment to sustainability

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “Li Auto Inc.” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

6. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these electronic application instructions through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating

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Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Joint Sponsors, the Joint Global Coordinators and the Hong Kong Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a **broker** or **custodian** or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
 - (i) agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant’s stock account on your behalf or your CCASS Investor Participant’s stock account;
 - 1. agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - 2. undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
 - 3. declare that only one set of **electronic application instructions** has been given for your benefit;
 - 4. (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person’s benefit and are duly authorized to give those instructions as its agent;
 - 5. confirm that you understand that we, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

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6. authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and dispatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
7. confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
8. confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
9. agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
10. agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;
11. agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
12. agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or

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before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

13. agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;
14. agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Hong Kong Offer Shares;
15. agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Act; and
16. agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Public Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum

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Public Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, August 3, 2021 — 9:00 a.m. to 8:30 p.m.
Wednesday, August 4, 2021 — 8:00 a.m. to 8:30 p.m.
Thursday, August 5, 2021 — 8:00 a.m. to 8:30 p.m.
Friday, August 6, 2021 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, August 3, 2021 until 12:00 noon on Friday, August 6, 2021 (24 hours daily, except on Friday, August 6, 2021, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, August 6, 2021, the last day for applications, or such later time as described in “Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Note:

- (1) The times in this subsection are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

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Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;
- verifying identities of the holders of our Class A Ordinary Shares;
- establishing benefit entitlements of holders of our Class A Ordinary Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from us and our subsidiaries;

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- compiling statistical information and profiles of the holder of our Class A Ordinary Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Class A Ordinary Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

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Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed “Corporate Information” in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems.

In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should go to HKSCC’s Customer Service Center to complete an input request form for electronic application instructions before 12:00 noon on Friday, August 6, 2021.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

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For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an unlisted company makes an application and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Public Offer Price is HK\$150.00 per Hong Kong Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 100 Hong Kong Offer Shares, you will pay HK\$15,151.16.

You must pay the maximum Public Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for the Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 100 Hong Kong Offer Shares. If you make an **electronic application instruction** for more than 100 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section “Minimum Application Amount and Permitted Numbers.”

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If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Hong Kong Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Public Offer Price, see “Structure of the Global Offering—Pricing and Allocation.”

C. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, August 6, 2021. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, August 6, 2021 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” we will make an announcement on our websites at ir.lixiang.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

D. PUBLICATION OF RESULTS

We expect to announce the pricing of the Offer Shares on or around the Price Determination Date, which is expected to be Friday, August 6, 2021, on our website at ir.lixiang.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

We expect to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Wednesday, August 11, 2021 on our website at ir.lixiang.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at ir.lixiang.com and www.hkexnews.hk, respectively, by no later than 9:00 a.m. on Wednesday, August 11, 2021;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Wednesday, August 11, 2021 to 12:00 midnight on Tuesday, August 17, 2021; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Wednesday, August 11, 2021 to Friday, August 13, 2021 and Monday, August 16, 2021.

If we accept your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

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Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or
- if any supplement to this prospectus is issued, in which case we will notify applicants who have already submitted an application that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Joint Global Coordinators, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Offer Shares and the International Offer Shares;
- your payment is not made correctly;

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- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- you apply for more than 50% of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Joint Global Coordinators believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Public Offer Price as finally determined is less than the maximum Public Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering—Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Wednesday, August 11, 2021.

G. DESPATCH/COLLECTION OF SHARE CERTIFICATES/E-REFUND PAYMENT INSTRUCTIONS/REFUND CHECKS

You will receive one share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on dispatch/collection of share certificates and refund checks as mentioned below, any refund checks and share certificate(s) are expected to be posted on or before Wednesday, August 11, 2021. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, August 12, 2021, provided that the Global Offering has become unconditional in all respects at or before that time.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Investors who trade Class A Ordinary Shares on the basis of publicly available allocation details or prior to the receipt of the share certificates or prior to the share certificates becoming valid do so entirely at their own risk.

Personal Collection

- *If you apply through White Form eIPO service:*
 - (a) If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, August 11, 2021, or any other place or date notified by us.
 - (b) If you do not personally collect your share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
 - (c) If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, August 11, 2021 by ordinary post and at your own risk.
 - (d) If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.
- *If you apply through CCASS EIPO service:*

Allocation of the Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- (a) If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, August 11, 2021 or on any other date determined by HKSCC or HKSCC Nominees.
- (b) We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "—Publication of Results" above on Wednesday, August 11, 2021. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, August 11, 2021 or such other date as determined by HKSCC or HKSCC Nominees.
- (c) If you have instructed your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that **broker** or **custodian**.
- (d) If you have applied as a CCASS Investor Participant, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, August 11, 2021. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- (e) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Public Offer Price and the maximum Public Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Wednesday, August 11, 2021.

17. Admission of the Shares into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Class A Ordinary Shares and we comply with the stock admission requirements of HKSCC, the Class A Ordinary Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Class A Ordinary Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Class A Ordinary Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF LI AUTO INC. AND GOLDMAN SACHS (ASIA) L.L.C. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Li Auto Inc. (the "Company"), its consolidated subsidiaries, its consolidated variable interest entities ("VIEs") and VIEs' subsidiaries (together, the "Group") set out on pages I-4 to I-94, which comprises the balance sheets of the Company as at December 31, 2018, 2019, 2020, and March 31, 2021, the consolidated balance sheets as at December 31, 2018, 2019, 2020, and March 31, 2021, and the consolidated statements of comprehensive loss, the consolidated statements of changes in shareholders' (deficit)/equity and the consolidated statements of cash flows for each of the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2021 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-94 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated August 3, 2021 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical*

Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at December 31, 2018, 2019, 2020, and March 31, 2021 and the consolidated financial position of the Group as at December 31, 2018, 2019, 2020, and March 31, 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive loss, the consolidated statement of changes in shareholders’ (deficit)/equity and the consolidated statement of cash flows for the three months ended March 31, 2020 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of

making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1(b) and 2(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 33 to the Historical Financial Information which states that no dividends have been paid by Li Auto Inc. in respect of the Track Record Period.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

August 3, 2021

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on consolidated financial statements of the Company for the years ended December 31, 2018, 2019, 2020, and the management accounts of the Group for the three months ended March 31, 2021 (collectively referred as "Historical Financial Statements"), after making additional disclosures for the purpose of this report. The consolidated financial statements for the years ended December 31, 2018, 2019 and 2020 were audited by PricewaterhouseCoopers Zhong Tian LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the financial statements.

The Historical Financial Information is presented in Renminbi ("RMB"). All values are rounded to the nearest thousand except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except for share and per share data)

| | | As of December 31, | | | | As of March 31, | |
|--|------|--------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| | Note | 2018 | 2019 | 2020 | 2020 | 2021 | |
| | | RMB | RMB | RMB | US\$ Note 2(e) | RMB | US\$ Note 2(e) |
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | 2(f) | 70,192 | 1,296,215 | 8,938,341 | 1,364,258 | 6,070,720 | 926,573 |
| Restricted cash | 2(f) | 25,000 | 140,027 | 1,234,178 | 188,372 | 2,111,642 | 322,300 |
| Time deposits and short-term investments | | 859,913 | 2,272,653 | 19,701,382 | 3,007,017 | 22,175,797 | 3,384,688 |
| Trade receivable, net of allowance for credit losses of nil, nil, nil and RMB315 as of December 31, 2018, 2019, 2020, and March 31, 2021, respectively | 6 | — | 8,303 | 115,549 | 17,636 | 114,456 | 17,469 |
| Inventories | 7 | 155 | 518,086 | 1,048,004 | 159,957 | 1,383,740 | 211,200 |
| Prepayments and other current assets, net of allowance for credit losses of nil, nil, nil and RMB582 as of December 31, 2018, 2019, 2020, and March 31, 2021, respectively | 8 | 1,318,040 | 812,956 | 353,655 | 53,978 | 478,555 | 73,042 |
| Assets held for sale, current | 22 | 21,040 | 17,599 | — | — | — | — |
| Total current assets | | 2,294,340 | 5,065,839 | 31,391,109 | 4,791,218 | 32,334,910 | 4,935,272 |
| Non-current assets: | | | | | | | |
| Long-term investments | 13 | 177,141 | 126,181 | 162,853 | 24,856 | 176,068 | 26,873 |
| Property, plant and equipment, net | 9 | 1,647,648 | 2,795,122 | 2,478,687 | 378,321 | 2,547,281 | 388,791 |
| Operating lease right-of-use assets, net | 11 | 365,534 | 510,227 | 1,277,006 | 194,909 | 1,331,713 | 203,259 |
| Intangible assets, net | 10 | 671,384 | 673,867 | 683,281 | 104,289 | 684,555 | 104,484 |
| Other non-current assets, net of allowance for credit losses of nil, nil, nil and RMB1,160 as of December 31, 2018, 2019, 2020, and March 31, 2021, respectively | 12 | 591,803 | 311,933 | 321,184 | 49,022 | 610,458 | 93,174 |
| Deferred tax assets | 27 | — | — | 59,156 | 9,029 | 59,156 | 9,029 |
| Assets held for sale, non-current | 22 | 33,090 | 30,253 | — | — | — | — |
| Total non-current assets | | 3,486,600 | 4,447,583 | 4,982,167 | 760,426 | 5,409,231 | 825,610 |
| Total assets | | 5,780,940 | 9,513,422 | 36,373,276 | 5,551,644 | 37,744,141 | 5,760,882 |
| Liabilities | | | | | | | |
| Current liabilities: | | | | | | | |
| Short-term borrowings | 14 | 20,000 | 238,957 | — | — | — | — |
| Trade and notes payable | 16 | 337,107 | 624,666 | 3,160,515 | 482,389 | 4,311,223 | 658,021 |
| Amounts due to related parties | 30 | 5,747 | 9,764 | 19,206 | 2,931 | 16,135 | 2,463 |
| Deferred revenue, current | 19 | — | 56,695 | 271,510 | 41,441 | 235,131 | 35,888 |
| Operating lease liabilities, current | 11 | 41,904 | 177,526 | 210,531 | 32,133 | 244,962 | 37,389 |
| Finance lease liabilities, current | 11 | 66,111 | 360,781 | — | — | — | — |
| Warrants and derivative liabilities | 24 | — | 1,648,690 | — | — | — | — |
| Accruals and other current liabilities | 15 | 1,272,126 | 867,259 | 647,459 | 98,821 | 742,154 | 113,275 |
| Convertible debts, current | 17 | — | 692,520 | — | — | — | — |
| Liabilities held for sale, current | 22 | 6,378 | 2,862 | — | — | — | — |
| Total current liabilities | | 1,749,373 | 4,679,720 | 4,309,221 | 657,715 | 5,549,605 | 847,036 |

CONSOLIDATED BALANCE SHEETS (Continued)

(All amounts in thousands, except for share and per share data)

| | Note | As of December 31, | | | | As of March 31, | |
|---|------|--------------------|------------------|------------------|-------------------|------------------|-------------------|
| | | 2018 | 2019 | 2020 | 2020 | 2021 | |
| | | RMB | RMB | RMB | US\$ Note 2(e) | RMB | US\$ Note 2(e) |
| Non-current liabilities: | | | | | | | |
| Long-term borrowings | 14 | — | — | 511,638 | 78,091 | 518,631 | 79,159 |
| Deferred revenue, non-current | 19 | — | 5,943 | 135,658 | 20,705 | 198,554 | 30,305 |
| Operating lease liabilities, non-current | 11 | 223,316 | 241,109 | 1,025,253 | 156,484 | 1,055,909 | 161,163 |
| Finance lease liabilities, non-current | 11 | 360,385 | — | 366,883 | 55,997 | 372,576 | 56,866 |
| Convertible debts, non-current | 17 | 644,602 | — | — | — | — | — |
| Deferred tax liabilities | 27 | — | — | 36,309 | 5,542 | 62,264 | 9,503 |
| Other non-current liabilities | | — | 5,519 | 184,717 | 28,193 | 253,942 | 38,759 |
| Total non-current liabilities | | 1,228,303 | 252,571 | 2,260,458 | 345,012 | 2,461,876 | 375,755 |
| Total liabilities | | 2,977,676 | 4,932,291 | 6,569,679 | 1,002,727 | 8,011,481 | 1,222,791 |
| Commitments and contingencies | 29 | | | | | | |
| Mezzanine equity | 24 | | | | | | |
| Series Pre-A convertible redeemable preferred shares (US\$0.0001 par value; 50,000,000, 50,000,000, nil and nil authorized, issued and outstanding as of December 31, 2018, 2019, 2020, and March 31, 2021) | | 175,847 | 434,886 | — | — | — | — |
| Series A-1 convertible redeemable preferred shares (US\$0.0001 par value; 129,409,092, 129,409,092, nil and nil authorized, issued and outstanding as of December 31, 2018, 2019, 2020, and March 31, 2021) | | 907,658 | 980,949 | — | — | — | — |
| Series A-2 convertible redeemable preferred shares (US\$0.0001 par value; 126,771,562, 126,771,562, nil and nil authorized, issued and outstanding as of December 31, 2018, 2019, 2020, and March 31, 2021) | | 1,099,816 | 1,074,959 | — | — | — | — |
| Series A-3 convertible redeemable preferred shares (US\$0.0001 par value; 65,498,640, 65,498,640, nil and nil authorized, issued and outstanding as of December 31, 2018, 2019, 2020, and March 31, 2021) | | 676,458 | 619,770 | — | — | — | — |
| Series B-1 convertible redeemable preferred shares (US\$0.0001 par value; 115,209,526, 115,209,526, nil and nil authorized, issued and outstanding as of December 31, 2018, 2019, 2020, and March 31, 2021) | | 1,621,561 | 1,347,607 | — | — | — | — |
| Series B-2 convertible redeemable preferred shares (US\$0.0001 par value; 55,804,773, 55,804,773, nil and nil authorized, issued and outstanding as of December 31, 2018, 2019, 2020, and March 31, 2021) | | 818,899 | 710,303 | — | — | — | — |
| Series B-3 convertible redeemable preferred shares (US\$0.0001 par value; nil, 119,950,686, nil and nil authorized, issued and outstanding as of December 31, 2018, 2019, 2020, and March 31, 2021) | | — | 1,551,080 | — | — | — | — |

CONSOLIDATED BALANCE SHEETS (Continued)

(All amounts in thousands, except for share and per share data)

| | Note | As of December 31, | | | | As of March 31, | |
|---|------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| | | 2018 | 2019 | 2020 | 2020 | 2021 | |
| | | RMB | RMB | RMB | US\$ Note 2(e) | RMB | US\$ Note 2(e) |
| Series C convertible redeemable preferred shares (US\$0.0001 par value; nil authorized, issued and outstanding as of December 31, 2018; 249,971,721 shares authorized, 244,172,860 issued and outstanding as of December 31, 2019; nil and nil authorized, issued and outstanding as of December 31, 2020 and March 31, 2021) | | — | 3,536,108 | — | — | — | — |
| Receivable from holders of Series B-2 convertible redeemable preferred shares | | (101,200) | — | — | — | — | — |
| Total mezzanine equity | | 5,199,039 | 10,255,662 | — | — | — | — |
| Shareholders' (deficit)/equity | | | | | | | |
| Class A Ordinary Shares (US\$0.0001 par value; 3,847,384,000 shares authorized and 15,000,000 shares issued and outstanding as of December 31, 2018 and 2019; 4,000,000,000 shares authorized, 1,453,476,230 shares issued and outstanding as of December 31, 2020; 4,000,000,000 shares authorized, 1,487,476,230 shares issued and 1,454,109,242 shares outstanding as of March 31, 2021) | 23 | 10 | 10 | 1,010 | 145 | 1,032 | 148 |
| Class B Ordinary Shares (US\$0.0001 par value; 240,000,000 shares authorized, issued and outstanding as of December 31, 2018 and 2019; 500,000,000 shares authorized, 355,812,080 shares issued and outstanding as of December 31, 2020 and March 31, 2021) | 23 | 155 | 155 | 235 | 36 | 235 | 36 |
| Treasury shares | 23 | — | — | — | — | (22) | (3) |
| Additional paid-in capital | | — | — | 37,289,761 | 5,691,529 | 37,473,102 | 5,719,513 |
| Accumulated other comprehensive income/(loss) | | 12,693 | 15,544 | (1,005,184) | (153,412) | (897,540) | (136,982) |
| Accumulated deficit | | (2,408,633) | (5,690,240) | (6,482,225) | (989,381) | (6,844,147) | (1,044,621) |
| Total shareholders' (deficit)/equity | | (2,395,775) | (5,674,531) | 29,803,597 | 4,548,917 | 29,732,660 | 4,538,091 |
| Total liabilities, mezzanine equity and shareholders' (deficit)/equity | | 5,780,940 | 9,513,422 | 36,373,276 | 5,551,644 | 37,744,141 | 5,760,882 |

COMPANY'S BALANCE SHEETS

(All amounts in thousands, except for share and per share data)

| | | As of December 31, | | | | As of March 31, | |
|---|------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Note | 2018 | 2019 | 2020 | 2020 | 2021 | |
| | | RMB | RMB | RMB | US\$ Note 2(e) | RMB | US\$ Note 2(e) |
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | | 45,341 | 641,007 | 1,149,374 | 175,429 | 476,672 | 72,754 |
| Time deposits and short-term investments | | — | 493,522 | 14,486,070 | 2,211,006 | 15,138,058 | 2,310,519 |
| Amounts due from subsidiaries of the Group | 32 | 137,231 | 4,917,305 | 14,065,341 | 2,146,790 | 14,312,464 | 2,184,510 |
| Prepayments and other current assets | 8 | — | 15,205 | — | — | 15,096 | 2,304 |
| Total current assets | | 182,572 | 6,067,039 | 29,700,785 | 4,533,225 | 29,942,290 | 4,570,087 |
| Non-current assets: | | | | | | | |
| Investments in subsidiaries, VIEs and VIEs' subsidiaries | | 2,545,314 | 81,077 | 42,754 | 6,526 | — | — |
| Long-term investments | 13 | 77,452 | 90,724 | 64,916 | 9,908 | 78,453 | 11,974 |
| Total non-current assets | | 2,622,766 | 171,801 | 107,670 | 16,434 | 78,453 | 11,974 |
| Total assets | | 2,805,338 | 6,238,840 | 29,808,455 | 4,549,659 | 30,020,743 | 4,582,061 |
| Liabilities | | | | | | | |
| Current liabilities: | | | | | | | |
| Accruals and other current liabilities | | 2,074 | 9,019 | 4,858 | 742 | 32,364 | 4,940 |
| Warrants and derivative liabilities | 24 | — | 1,648,690 | — | — | — | — |
| Total current liabilities | | 2,074 | 1,657,709 | 4,858 | 742 | 32,364 | 4,940 |
| Deficit of investments in subsidiaries, VIEs and VIEs' subsidiaries | | — | — | — | — | 255,719 | 39,030 |
| Total liabilities | | 2,074 | 1,657,709 | 4,858 | 742 | 288,083 | 43,970 |
| Mezzanine equity | | | | | | | |
| Series Pre-A convertible redeemable preferred shares | 24 | 175,847 | 434,886 | — | — | — | — |
| Series A-1 convertible redeemable preferred shares | | 907,658 | 980,949 | — | — | — | — |
| Series A-2 convertible redeemable preferred shares | | 1,099,816 | 1,074,959 | — | — | — | — |
| Series A-3 convertible redeemable preferred shares | | 676,458 | 619,770 | — | — | — | — |
| Series B-1 convertible redeemable preferred shares | | 1,621,561 | 1,347,607 | — | — | — | — |
| Series B-2 convertible redeemable preferred shares | | 818,899 | 710,303 | — | — | — | — |
| Series B-3 convertible redeemable preferred shares | | — | 1,551,080 | — | — | — | — |
| Series C convertible redeemable preferred shares | | — | 3,536,108 | — | — | — | — |
| Receivable from holders of Series B-2 convertible redeemable preferred shares | | (101,200) | — | — | — | — | — |
| Total mezzanine equity | | 5,199,039 | 10,255,662 | — | — | — | — |

COMPANY'S BALANCE SHEETS (Continued)

(All amounts in thousands, except for share and per share data)

| | Note | As of December 31, | | | | As of March 31, | |
|---|------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| | | 2018 | 2019 | 2020 | 2020 | 2021 | |
| | | RMB | RMB | RMB | US\$ Note 2(e) | RMB | US\$ Note 2(e) |
| Shareholders' (deficit)/equity | | | | | | | |
| Class A Ordinary Shares | 23 | 10 | 10 | 1,010 | 145 | 1,032 | 148 |
| Class B Ordinary Shares | 23 | 155 | 155 | 235 | 36 | 235 | 36 |
| Treasury shares | 23 | — | — | — | — | (22) | (3) |
| Additional paid in capital | | — | — | 37,289,761 | 5,691,529 | 37,473,102 | 5,719,513 |
| Accumulated other comprehensive income/(loss) | | 12,693 | 15,544 | (1,005,184) | (153,412) | (897,540) | (136,982) |
| Accumulated deficit | | (2,408,633) | (5,690,240) | (6,482,225) | (989,381) | (6,844,147) | (1,044,621) |
| Total shareholders' (deficit)/equity | | (2,395,775) | (5,674,531) | 29,803,597 | 4,548,917 | 29,732,660 | 4,538,091 |
| Total liabilities, mezzanine equity and shareholders' (deficit)/equity | | 2,805,338 | 6,238,840 | 29,808,455 | 4,549,659 | 30,020,743 | 4,582,061 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands, except for share and per share data)

| | | For the year ended December 31, | | | | For the three months ended March 31, | | |
|--|------|---------------------------------|--------------------|--------------------|--------------------|--------------------------------------|--------------------|-------------------|
| | Note | 2018 | 2019 | 2020 | 2020 | 2020 | 2021 | |
| | | RMB | RMB | RMB | US\$ Note 2(e) | RMB (Unaudited) | RMB | US\$ Note 2(e) |
| Revenues: | | | | | | | | |
| Vehicle sales | | — | 280,967 | 9,282,703 | 1,416,817 | 841,058 | 3,463,673 | 528,660 |
| Other sales and services | | — | 3,400 | 173,906 | 26,543 | 10,617 | 111,528 | 17,022 |
| Total revenues | 18 | — | 284,367 | 9,456,609 | 1,443,360 | 851,675 | 3,575,201 | 545,682 |
| Cost of sales: | | | | | | | | |
| Vehicle sales | | — | (279,555) | (7,763,628) | (1,184,961) | (769,996) | (2,878,994) | (439,420) |
| Other sales and services | | — | (4,907) | (143,642) | (21,924) | (13,391) | (79,474) | (12,130) |
| Total cost of sales | | — | (284,462) | (7,907,270) | (1,206,885) | (783,387) | (2,958,468) | (451,550) |
| Gross (loss)/profit | | — | (95) | 1,549,339 | 236,475 | 68,288 | 616,733 | 94,132 |
| Operating expenses: | | | | | | | | |
| Research and development | 20 | (793,717) | (1,169,140) | (1,099,857) | (167,871) | (189,690) | (514,500) | (78,528) |
| Selling, general and administrative | 21 | (337,200) | (689,379) | (1,118,819) | (170,765) | (112,761) | (509,924) | (77,830) |
| Total operating expenses | | (1,130,917) | (1,858,519) | (2,218,676) | (338,636) | (302,451) | (1,024,424) | (156,358) |
| Loss from operations | | (1,130,917) | (1,858,614) | (669,337) | (102,161) | (234,163) | (407,691) | (62,226) |
| Other (expense)/income: | | | | | | | | |
| Interest expense | | (63,467) | (83,667) | (66,916) | (10,213) | (19,635) | (14,582) | (2,226) |
| Interest income | | 3,582 | 30,256 | 41,316 | 6,306 | 7,595 | 29,694 | 4,532 |
| Investment income/(loss), net | | 68,135 | 49,375 | 213,600 | 32,602 | (23,770) | 148,778 | 22,708 |
| Share of loss of equity method investees | 13 | (35,826) | (162,725) | (2,520) | (385) | (420) | (322) | (49) |
| Foreign exchange (loss)/gain, net | | (3,726) | 31,977 | (6,719) | (1,026) | 1,970 | (93,494) | (14,270) |
| Changes in fair value of warrants and derivative liabilities | | — | (426,425) | 272,327 | 41,565 | 176,283 | — | — |
| Others, net | | (3,077) | 1,949 | 29,372 | 4,483 | 654 | 3,605 | 550 |
| Loss before income tax expense | | (1,165,296) | (2,417,874) | (188,877) | (28,829) | (91,486) | (334,012) | (50,981) |
| Income tax benefit/(expense) | 27 | — | — | 22,847 | 3,487 | — | (25,955) | (3,962) |
| Net loss from continuing operations | | (1,165,296) | (2,417,874) | (166,030) | (25,342) | (91,486) | (359,967) | (54,943) |
| Net (loss)/income from discontinued operations, net of tax | 22 | (367,022) | (20,662) | 14,373 | 2,194 | 14,373 | — | — |
| Net loss | | (1,532,318) | (2,438,536) | (151,657) | (23,148) | (77,113) | (359,967) | (54,943) |
| Accretion on convertible redeemable preferred shares to redemption value | | (317,320) | (743,100) | (651,190) | (99,391) | (266,365) | — | — |
| Deemed dividend to preferred shareholders upon extinguishment, net | 24 | — | (217,362) | — | — | — | — | — |
| Effect of exchange rate changes on convertible redeemable preferred shares | | — | 117,391 | 10,862 | 1,658 | 109,746 | — | — |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Continued)

(All amounts in thousands, except for share and per share data)

| Note | For the year ended December 31, | | | | For the three months ended March 31, | | |
|--|---------------------------------|--------------------|--------------------|-------------------|--------------------------------------|------------------|-------------------|
| | 2018 | 2019 | 2020 | 2020 | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ Note 2(e) | RMB (Unaudited) | RMB | US\$ Note 2(e) |
| Net loss attributable to ordinary shareholders of Li Auto Inc. | <u>(1,849,638)</u> | <u>(3,281,607)</u> | <u>(791,985)</u> | <u>(120,881)</u> | <u>(233,732)</u> | <u>(359,967)</u> | <u>(54,943)</u> |
| Including: Net loss from continuing operations attributable to ordinary shareholders | (1,482,616) | (3,260,945) | (806,358) | (123,075) | (248,105) | (359,967) | (54,943) |
| Net (loss)/income from discontinued operations attributable to ordinary shareholders | (367,022) | (20,662) | 14,373 | 2,194 | 14,373 | — | — |
| Weighted average number of ordinary shares used in computing net loss per share | | | | | | | |
| Basic and diluted | 25 255,000,000 | 255,000,000 | 870,003,278 | 870,003,278 | 255,000,000 | 1,809,393,256 | 1,809,393,256 |
| Net (loss)/income per share attributable to ordinary shareholders | | | | | | | |
| Basic and diluted | | | | | | | |
| Continuing operations | 25 (5.81) | (12.79) | (0.93) | (0.14) | (0.97) | (0.20) | (0.03) |
| Discontinued operations | 25 (1.44) | (0.08) | 0.02 | — | 0.06 | — | — |
| Net loss per share | 25 <u>(7.25)</u> | <u>(12.87)</u> | <u>(0.91)</u> | <u>(0.14)</u> | <u>(0.91)</u> | <u>(0.20)</u> | <u>(0.03)</u> |
| Net loss | <u>(1,532,318)</u> | <u>(2,438,536)</u> | <u>(151,657)</u> | <u>(23,148)</u> | <u>(77,113)</u> | <u>(359,967)</u> | <u>(54,943)</u> |
| Other comprehensive income/(loss), net of tax | | | | | | | |
| Foreign currency translation adjustment, net of tax | 12,954 | 2,851 | (1,020,728) | (155,794) | (5,088) | 107,644 | 16,430 |
| Total other comprehensive income/(loss), net of tax | <u>12,954</u> | <u>2,851</u> | <u>(1,020,728)</u> | <u>(155,794)</u> | <u>(5,088)</u> | <u>107,644</u> | <u>16,430</u> |
| Total comprehensive loss, net of tax | <u>(1,519,364)</u> | <u>(2,435,685)</u> | <u>(1,172,385)</u> | <u>(178,942)</u> | <u>(82,201)</u> | <u>(252,323)</u> | <u>(38,513)</u> |
| Accretion on convertible redeemable preferred shares to redemption value | (317,320) | (743,100) | (651,190) | (99,391) | (266,365) | — | — |
| Deemed dividend to preferred shareholders upon extinguishment, net | 24 — | (217,362) | — | — | — | — | — |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | 117,391 | 10,862 | 1,658 | 109,746 | — | — |
| Comprehensive loss attributable to ordinary shareholders of Li Auto Inc. | <u>(1,836,684)</u> | <u>(3,278,756)</u> | <u>(1,812,713)</u> | <u>(276,675)</u> | <u>(238,820)</u> | <u>(252,323)</u> | <u>(38,513)</u> |

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY

(All amounts in thousands, except for share and per share data)

| | Class A Ordinary Shares | | Class B Ordinary Shares | | Additional paid-in capital | Accumulated other comprehensive (loss)/income | Accumulated deficit | Total shareholders' (deficit)/equity |
|--|-------------------------|-----------|-------------------------|------------|----------------------------|---|---------------------|--------------------------------------|
| | Number of shares | Amount | Number of shares | Amount | | | | |
| | | RMB | | RMB | RMB | RMB | RMB | RMB |
| Balance as of January 1, 2018 | 15,000,000 | 10 | 240,000,000 | 155 | 106,080 | (261) | (665,075) | (559,091) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | (106,080) | — | (211,240) | (317,320) |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | 12,954 | — | 12,954 |
| Net loss | — | — | — | — | — | — | (1,532,318) | (1,532,318) |
| Balance as of December 31, 2018 | 15,000,000 | 10 | 240,000,000 | 155 | — | 12,693 | (2,408,633) | (2,395,775) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | — | — | (743,100) | (743,100) |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | — | — | — | — | — | 117,391 | 117,391 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | 2,851 | — | 2,851 |
| Deemed dividend to preferred shareholders upon extinguishment, net | — | — | — | — | — | — | (217,362) | (217,362) |
| Net loss | — | — | — | — | — | — | (2,438,536) | (2,438,536) |
| Balance as of December 31, 2019 | 15,000,000 | 10 | 240,000,000 | 155 | — | 15,544 | (5,690,240) | (5,674,531) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | — | — | (651,190) | (651,190) |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | — | — | — | — | — | 10,862 | 10,862 |
| Share issuance upon the initial public offering ("IPO") and concurrent private placements, net of issuance costs | 284,586,955 | 199 | — | — | 11,023,348 | — | — | 11,023,547 |
| Share issuance upon the conversion and re-designation of preferred shares into Class A and Class B Ordinary Shares | 1,045,789,275 | 730 | 115,812,080 | 80 | 14,723,086 | — | — | 14,723,896 |

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY (Continued)

(All amounts in thousands, except for share and per share data)

| | Class A Ordinary Shares | | Class B Ordinary Shares | | | Accumulated other comprehensive | Accumulated | Total |
|---|-------------------------|--------------|-------------------------|------------|-------------------------------|---------------------------------------|--------------------|-----------------------------------|
| | Number of shares | Amount | Number of shares | Amount | Additional paid-in capital | (loss)/income | deficit | shareholders' (deficit)/equity |
| | | RMB | | RMB | RMB | RMB | RMB | RMB |
| Exercise of conversion features of preferred shares upon the consummation of IPO | — | — | — | — | 1,400,670 | — | — | 1,400,670 |
| Share issuance upon the follow-on offering, net of issuance costs | 108,100,000 | 71 | — | — | 9,999,862 | — | — | 9,999,933 |
| Share-based compensation | — | — | — | — | 142,795 | — | — | 142,795 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | (1,020,728) | — | (1,020,728) |
| Net loss | — | — | — | — | — | — | (151,657) | (151,657) |
| Balance as of December 31, 2020 | 1,453,476,230 | 1,010 | 355,812,080 | 235 | 37,289,761 | (1,005,184) | (6,482,225) | 29,803,597 |
| Balance as of December 31, 2019 | 15,000,000 | 10 | 240,000,000 | 155 | — | 15,544 | (5,690,240) | (5,674,531) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | — | — | (266,365) | (266,365) |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | — | — | — | — | — | 109,746 | 109,746 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | (5,088) | — | (5,088) |
| Net loss | — | — | — | — | — | — | (77,113) | (77,113) |
| Balance as of March 31, 2020 | 15,000,000 | 10 | 240,000,000 | 155 | — | 10,456 | (5,923,972) | (5,913,351) |

| | Class A Ordinary Shares | | Class B Ordinary Shares | | Treasury Shares | | Additional | Accumulated | Accumulated | Total |
|---|-------------------------|--------------|-------------------------|------------|---------------------|-------------|--------------------|------------------------|--------------------|-----------------------------------|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | paid-in capital | other comprehensive | deficit | shareholders' (deficit)/equity |
| | | RMB | | RMB | | RMB | RMB | (loss)/income | RMB | RMB |
| Balance as of December 31, 2020 | 1,453,476,230 | 1,010 | 355,812,080 | 235 | — | — | 37,289,761 | (1,005,184) | (6,482,225) | 29,803,597 |
| Cumulative effect of adoption of credit loss guidance (Note 2(h)) | — | — | — | — | — | — | — | — | (1,955) | (1,955) |
| Issuance of ordinary shares | 34,000,000 | 22 | — | — | (34,000,000) | (22) | — | — | — | — |
| Exercise of share options | — | — | — | — | 633,012 | — | 413 | — | — | 413 |
| Share-based compensation | — | — | — | — | — | — | 182,928 | — | — | 182,928 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | — | — | 107,644 | — | 107,644 |
| Net loss | — | — | — | — | — | — | — | — | (359,967) | (359,967) |
| Balance as of March 31, 2021 | 1,487,476,230 | 1,032 | 355,812,080 | 235 | (33,366,988) | (22) | 37,473,102 | (897,540) | (6,844,147) | 29,732,660 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands, except for share and per share data)

| | For the year ended December 31, | | | | For the three months ended March 31, | | |
|---|---------------------------------|--------------------|------------------|-------------------|--------------------------------------|----------------|-------------------|
| | 2018 | 2019 | 2020 | 2020 | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ Note 2(e) | RMB (Unaudited) | RMB | US\$ Note 2(e) |
| Cash flows from operating activities | | | | | | | |
| Net loss | (1,532,318) | (2,438,536) | (151,657) | (23,148) | (77,113) | (359,967) | (54,943) |
| Net loss/(income) from discontinued operations, net of tax | 367,022 | 20,662 | (14,373) | (2,194) | (14,373) | — | — |
| Adjustments to reconcile net loss to net cash (used in)/provided by operating activities: | | | | | | | |
| Depreciation and amortization | 60,496 | 116,391 | 320,996 | 48,994 | 55,354 | 97,276 | 14,847 |
| Share-based compensation expenses | — | — | 142,795 | 21,795 | — | 182,928 | 27,921 |
| Foreign exchange loss/(gain) | 3,726 | (31,977) | 3,710 | 566 | (1,970) | 144,229 | 22,014 |
| Unrealized investment loss/(income) | 28,781 | 13,221 | (33,008) | (5,038) | 28,703 | 35,535 | 5,424 |
| Allowance for credit losses | — | — | — | — | — | 102 | 16 |
| Interest expense | 63,467 | 83,667 | 65,249 | 9,959 | 19,007 | 12,687 | 1,936 |
| Share of loss of equity method investees | 35,826 | 162,725 | 2,520 | 385 | 420 | 322 | 49 |
| Impairment loss | — | 18,066 | 30,381 | 4,637 | — | — | — |
| Changes in fair value of warrants and derivative liabilities | — | 426,425 | (272,327) | (41,565) | (176,283) | — | — |
| Deferred income tax, net | — | — | (22,847) | (3,487) | — | 25,955 | 3,962 |
| Loss/(gain) on disposal of property, plant and equipment | 2,563 | 602 | 379 | 58 | (209) | 19,843 | 3,029 |
| Changes in operating assets and liabilities: | | | | | | | |
| Prepayments and other current assets | (200,408) | (442,745) | 459,301 | 70,103 | 42,044 | (124,768) | (19,043) |
| Inventories | 3,127 | (510,546) | (516,867) | (78,889) | (189,621) | (330,253) | (50,406) |
| Changes of operating lease right-of-use assets | (206,764) | (144,693) | (766,779) | (117,033) | (1,157) | (54,707) | (8,350) |
| Changes of operating lease liabilities | 107,894 | 153,415 | 817,149 | 124,721 | 10,010 | 65,087 | 9,934 |
| Other non-current assets | (116,515) | 8,512 | 1,656 | 253 | 1,858 | (10,525) | (1,606) |
| Trade receivable | — | (8,303) | (107,246) | (16,369) | (26,401) | 776 | 118 |
| Deferred revenue | — | 62,638 | 344,530 | 52,586 | 42,132 | 26,517 | 4,047 |
| Trade and notes payable | (62,500) | 602,276 | 2,530,350 | 386,207 | 238,194 | 1,066,210 | 162,735 |
| Amounts due to related parties | 3,049 | 4,017 | 9,442 | 1,441 | 376 | (3,071) | (469) |
| Accruals and other current liabilities | 161,674 | 116,349 | 131,111 | 20,011 | (29,894) | 62,942 | 9,607 |
| Other non-current liabilities | — | 5,519 | 165,191 | 25,213 | 15,768 | 69,225 | 10,566 |
| Net cash (used in)/provided by continuing operating activities | (1,280,880) | (1,782,315) | 3,139,656 | 479,206 | (63,155) | 926,343 | 141,388 |
| Net cash (used in)/provided by discontinued operating activities | (65,925) | (11,395) | 148 | 23 | 148 | — | — |
| Net cash (used in)/provided by operating activities | (1,346,805) | (1,793,710) | 3,139,804 | 479,229 | (63,007) | 926,343 | 141,388 |
| Cash flows from investing activities | | | | | | | |
| Purchase of property, plant and equipment and intangible assets | (970,733) | (952,901) | (675,187) | (103,054) | (122,146) | (356,131) | (54,356) |
| Disposal of property, plant and equipment | 413 | 1,648 | 535 | 82 | 535 | — | — |
| Purchase of long-term investments | (213,303) | (98,000) | (65,000) | (9,921) | (60,000) | — | — |
| Placement of time deposits | — | (1,725,148) | (1,038,017) | (158,432) | — | (797,268) | (121,687) |
| Withdrawal of time deposits | — | 1,265,877 | 601,968 | 91,878 | 139,581 | 129,643 | 19,787 |

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(All amounts in thousands, except for share and per share data)

| | For the year ended December 31, | | | | For the three months ended March 31, | | |
|--|---------------------------------|--------------------|---------------------|--------------------|--------------------------------------|--------------------|-------------------|
| | 2018 | 2019 | 2020 | 2020 | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ Note 2(e) | RMB (Unaudited) | RMB | US\$ Note 2(e) |
| Placement of short-term investments | (5,737,600) | (7,998,736) | (105,279,461) | (16,068,784) | (3,928,647) | (86,873,023) | (13,259,413) |
| Withdraw of short-term investments | 7,278,670 | 7,020,989 | 87,699,180 | 13,385,509 | 3,729,555 | 85,004,683 | 12,974,249 |
| Loan to Chongqing Lifan Holdings Ltd. ("Lifan Holdings") and a supplier | (490,000) | (8,000) | (6,000) | (916) | — | — | — |
| Collection of loan principal from Lifan Holdings | — | 490,000 | — | — | — | — | — |
| Cash paid related to acquisition of Chongqing Zhizao Automobile Co., Ltd. ("Chongqing Zhizao"), net of cash acquired | 25,004 | (560,000) | (35,448) | (5,410) | — | (300) | (46) |
| Net cash used in continuing investing activities | (107,549) | (2,564,271) | (18,797,430) | (2,869,048) | (241,122) | (2,892,396) | (441,466) |
| Net cash (used in)/provided by discontinued investing activities | (83,963) | (10,565) | 59,705 | 9,113 | 59,705 | — | — |
| Net cash used in investing activities | (191,512) | (2,574,836) | (18,737,725) | (2,859,935) | (181,417) | (2,892,396) | (441,466) |
| Cash flows from financing activities | | | | | | | |
| Proceeds from borrowings | — | 233,287 | — | — | — | — | — |
| Repayment of short-term borrowings | — | — | (144,700) | (22,086) | (114,700) | — | — |
| Proceeds from collection of receivable from holders of Series B-1 convertible redeemable preferred shares | 285,000 | — | — | — | — | — | — |
| Proceeds from issuance of Series B-2 convertible redeemable preferred shares | 688,800 | — | — | — | — | — | — |
| Proceeds from collection of receivable from holders of Series B-2 convertible redeemable preferred shares | — | 101,200 | — | — | — | — | — |
| Proceeds from issuance of Series B-3 convertible redeemable preferred shares | — | 1,530,000 | — | — | — | — | — |
| Proceeds from issuance of Series C convertible redeemable preferred shares | — | 3,626,924 | — | — | — | — | — |
| Proceeds from issuance of Series D convertible redeemable preferred shares | — | — | 3,829,757 | 584,535 | — | — | — |
| Payment of convertible redeemable preferred shares issuance costs | (15,142) | (3,791) | — | — | (21,277) | — | — |
| Proceeds from issuance of convertible debts | 150,000 | 168,070 | — | — | — | — | — |
| Proceeds from IPO and concurrent private placements, net of issuance cost | — | — | 11,034,685 | 1,684,222 | — | — | — |
| Proceeds from follow-on offering, net of issuance cost | — | — | 9,990,955 | 1,524,918 | — | — | — |

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(All amounts in thousands, except for share and per share data)

| | For the year ended December 31, | | | | For the three months ended March 31, | | |
|---|---------------------------------|-----------|------------|-------------------|--------------------------------------|-------------|-------------------|
| | 2018 | 2019 | 2020 | 2020 | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ Note 2(e) | RMB (Unaudited) | RMB | US\$ Note 2(e) |
| Net cash provided by/(used in) continuing financing activities | 1,108,658 | 5,655,690 | 24,710,697 | 3,771,589 | (135,977) | — | — |
| Net cash provided by/(used in) financing activities | 1,108,658 | 5,655,690 | 24,710,697 | 3,771,589 | (135,977) | — | — |
| Effects of exchange rate changes on cash and cash equivalents and restricted cash | 3,299 | 53,722 | (376,646) | (57,487) | 4,660 | (24,104) | (3,679) |
| Net (decrease)/increase in cash, cash equivalents and restricted cash | (426,360) | 1,340,866 | 8,736,130 | 1,333,396 | (375,741) | (1,990,157) | (303,757) |
| Cash, cash equivalents and restricted cash at beginning of the year/period | 521,883 | 95,523 | 1,436,389 | 219,234 | 1,436,389 | 10,172,519 | 1,552,630 |
| Cash, cash equivalents and restricted cash at end of the year/period | 95,523 | 1,436,389 | 10,172,519 | 1,552,630 | 1,060,648 | 8,182,362 | 1,248,873 |
| Less: Cash, cash equivalents and restricted cash of discontinued operations at end of the year/period | 331 | 147 | — | — | — | — | — |
| Cash, cash equivalents and restricted cash of continuing operations at end of the year/period | 95,192 | 1,436,242 | 10,172,519 | 1,552,630 | 1,060,648 | 8,182,362 | 1,248,873 |
| Supplemental schedule of non-cash investing and financing activities | | | | | | | |
| Payable related to acquisition of Chongqing Zhizao | (650,000) | (115,000) | (79,552) | (12,142) | (115,000) | (79,252) | (12,096) |
| Receivable from holders of Series B-2 convertible redeemable preferred shares | 101,200 | — | — | — | — | — | — |
| Payable related to purchase of property, plant and equipment | (346,602) | (403,761) | (118,181) | (18,038) | (321,897) | (154,602) | (23,597) |
| Payables for issuance costs | — | (20,929) | — | — | — | — | — |
| Exercise of Series B-3 Anti-Dilution Warrant | — | — | — | — | 305,333 | — | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(All amounts in thousands, except for share and per share data)

1 ORGANIZATION AND NATURE OF OPERATIONS**(a) Principal activities**

Li Auto Inc. ("Li Auto", or the "Company") was incorporated under the laws of the Cayman Islands in April 2017 as an exempted company with limited liability. The Company, through its consolidated subsidiaries and consolidated variable interest entities (the "VIEs") and VIEs' subsidiaries (collectively, the "Group"), is primarily engaged in the design, development, manufacturing, and sales of new energy vehicles in the People's Republic of China (the "PRC").

(b) History of the Group and basis of presentation for the Reorganization

Prior to the incorporation of the Company and starting in April 2015, the Group's business was carried out under Beijing CHJ Information Technology Co., Ltd. (or "Beijing CHJ") and its subsidiaries. Concurrently with the incorporation of the Company in April 2017, Beijing CHJ, through one of its wholly-owned subsidiaries, entered into a shareholding entrustment agreement with the management team (the legal owners of the Company at that time) to obtain full control over the Company (the "Cayman Shareholding Entrustment Agreement"). In the same year, the Company set up its subsidiaries Leading Ideal HK Limited ("Leading Ideal HK"), Beijing Co Wheels Technology Co., Ltd. ("Wheels Technology" or "WOFE"), and a consolidated VIE, Beijing Xindian Transport Information Technology Co., Ltd. ("Xindian Information"). The Company, together with its subsidiaries and VIE, were controlled and consolidated by Beijing CHJ prior to the Reorganization.

The Group underwent a reorganization (the "Reorganization") in July 2019. The major reorganization steps are described as follows:

- Beijing CHJ terminated the Cayman Shareholding Entrustment Agreement, and concurrently the WOFE entered into contractual agreements with Beijing CHJ and its legal shareholders so that Beijing CHJ became a consolidated VIE of the WOFE;
- the Company issued ordinary shares and Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 convertible redeemable preferred shares to shareholders of Beijing CHJ in exchange for respective equity interests that they held in Beijing CHJ immediately before the Reorganization.

All Reorganization related contracts were signed by all relevant parties on July 2, 2019, and all administrative procedures of the Reorganization, including but not limited to remitting share capital of Beijing CHJ overseas for reinjecting into the Company were completed by December 31, 2019.

As the shareholdings in the Company and Beijing CHJ were with a high degree of common ownership immediately before and after the Reorganization, even though no single investor controlled Beijing CHJ or Li Auto, the transaction of the Reorganization was determined to be a recapitalization with lack of economic substance, and was accounted for in a manner similar to a common control transaction. Consequently, the financial information of the Group is presented on a carryover basis for all periods presented. The number of outstanding shares in the consolidated balance sheets, the consolidated statements of changes in shareholders' (deficit)/equity, and per share information including the net loss per share have been presented retrospectively as of the beginning of the earliest period presented on the Historical Financial Information to be comparable with the final number of shares issued in the Reorganization. Accordingly, the effect of the ordinary shares and the preferred shares issued by the Company pursuant to the Reorganization have been presented retrospectively as of the beginning of the earliest period presented in the consolidated financial statement or the original issue date, whichever is later, as if such shares were issued by the Company when the Group issued such interests.

The Historical Financial Information include the financial statements of the Company, its subsidiaries, consolidated VIEs and VIEs' subsidiaries.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

As of March 31, 2021, the Company's principal subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

| | Equity interest held | Issued and fully paid share capital | Date of incorporation or date of acquisition | Place of incorporation | Principal activities and place of operation | Note |
|--|----------------------------|---|---|---------------------------|--|--------|
| Subsidiaries: | | | | | | |
| Leading Ideal HK Limited ("Leading Ideal HK") | 100% | HKD0.1 | May 15, 2017 | Hong Kong, China | Investment holding in Hong Kong | (i) |
| Beijing Co Wheels Technology Co., Ltd. ("Wheels Technology") | 100% | RMB105,422 | December 19, 2017 | Beijing, PRC | Technology development and corporate management in the PRC | (ii) |
| Leading (Xiamen) Private Equity Investment Co., Ltd. ("Xiamen Leading") | 100% | RMB2,187,782 | May 14, 2019 | Xiamen, PRC | Investment holding in the PRC | (iii) |
| Beijing Leading Automobile Sales Co., Ltd. ("Beijing Leading") | 100% | RMB1,486,929 | August 6, 2019 | Beijing, PRC | Sales and after sales management in the PRC | (iv) |
| VIEs | | | | | | |
| Beijing CHJ Information Technology Co., Ltd. ("Beijing CHJ") | 100% | RMB295,464 | April 10, 2015 | Beijing, PRC | Technology development in the PRC | (v) |
| Beijing Xindian Transport Information Technology Co., Ltd. ("Xindian Information") | 100% | — | March 27, 2017 | Beijing, PRC | Technology development in the PRC | (iii) |
| VIE's subsidiaries | | | | | | |
| Jiangsu Chehejia Automobile Co., Ltd. ("Jiangsu Chehejia") | 100% | RMB600,000 | June 23, 2016 | Changzhou, PRC | Purchase of manufacturing equipment in the PRC | (vi) |
| Beijing Xindian Intelligence Technology Co., Ltd. ("Beijing XDIT") | 100% | RMB740,002 | January 05, 2017 | Beijing, PRC | Technology development in the PRC | (iii) |
| Jiangsu Xindian Interactive Sales and Services Co., Ltd. ("Xindian Interactive") | 100% | RMB45,177 | May 08, 2017 | Changzhou, PRC | Sales and after sales management in the PRC | (vii) |
| Beijing Chelixing Information Technology Co., Ltd. ("Beijing CLX") | 100% | RMB310,000 | June 25, 2018 | Beijing, PRC | Technology development in the PRC | (iii) |
| Chongqing Lixiang Automobile Co., Ltd. ("Chongqing Lixiang") | 100% | — | October 11, 2019 | Chongqing, PRC | Manufacturing of automobile in the PRC | (viii) |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Notes:

- (i) The statutory financial statements of Leading Ideal HK for the year ended December 31, 2018 prepared under Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") were audited by Tsoi Chi Hei Certified Public Accountant (Practicing), certified public accountants registered in Hong Kong. The statutory financial statements of Leading Ideal HK for the years ended December 31, 2019 and 2020 prepared under SME-FRS were audited by PricewaterhouseCoopers, certified public accountants registered in Hong Kong.
- (ii) The statutory financial statements of Wheels Technology for the year ended December 31, 2019 prepared under PRC GAAP were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, certified public accountants registered in the PRC. No audited financial statements have been prepared for the entity for the year ended December 31, 2018. The statutory financial statements of Wheels Technology for the year ended December 31, 2020 prepared under PRC GAAP were audited by Beijing Dongshen Dingli International Accounting Firm Co., Ltd., certified public accountants registered in the PRC.
- (iii) No audited financial statements have been prepared for these entities for the years ended December 31, 2018, 2019 and 2020.
- (iv) The statutory financial statements of Beijing Leading for the year ended December 31, 2019 prepared under PRC GAAP were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, certified public accountants registered in the PRC, and the statutory financial statements of Beijing Leading for the year ended December 31, 2020 prepared under PRC GAAP were audited by PricewaterhouseCoopers Zhong Tian LLP Beijing Branch, certified public accountants registered in the PRC.
- (v) The statutory financial statements of Beijing CHJ for the year ended December 31, 2018 prepared under PRC GAAP were audited by Beijing Xinghua Certified Public Accountants (Special General Partnership), certified public accountants registered in the PRC, and the statutory financial statements for the year ended December 31, 2019 prepared under PRC GAAP were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, certified public accountants registered in the PRC. The statutory financial statements of Beijing CHJ for the year ended December 31, 2020 prepared under PRC GAAP were audited by PricewaterhouseCoopers Zhong Tian LLP Beijing Branch, certified public accountants registered in the PRC.
- (vi) The financial statements of Jiangsu Chehejia for the year ended December 31, 2018 prepared under PRC GAAP were audited by Beijing Xinghua Certified Public Accountants (Special General Partnership), certified public accountants registered in the PRC. No audited financial statements have been prepared for the entity for the years ended December 31, 2019 and 2020. Up to the date of the report, Jiangsu Chehejia became the Company's subsidiary.
- (vii) The financial statements of Xindian Interactive for the year ended December 31, 2019 prepared under PRC GAAP were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, certified public accountants registered in the PRC. No audited financial statements have been prepared for the entity for the years ended December 31, 2018 and 2020. Up to the date of the report, Xindian Interactive became the Company's subsidiary.
- (viii) The financial statements of Chongqing Lixiang for the year ended December 31, 2020 prepared under PRC GAAP were audited by PricewaterhouseCoopers Zhong Tian LLP Beijing Branch, certified public accountants registered in the PRC. No audited financial statements have been prepared for the entity for the year ended December 31, 2019.

(c) Variable interest entity

The Company's subsidiary Wheels Technology has entered into contractual arrangements with Beijing CHJ, Xindian Information (collectively the "VIEs") and their respective shareholders, through which, the Company exercises control over the operations of the VIEs and receives substantially all of their economic benefits and residual returns.

The following is a summary of the contractual arrangements by and among Wheels Technology, the VIEs, and their respective shareholders.

Powers of Attorney and Business Operation Agreement.

Each shareholder of Beijing CHJ signed a power of attorney to irrevocably authorize Wheels Technology to act as his or her attorney in-fact to exercise all of his or her rights as a shareholder of Beijing CHJ, including the right to convene shareholder meetings, the right to vote and sign any resolution as a shareholder, the right to appoint directors, supervisors, and officers, and the right to sell, transfer, pledge, and dispose of all or a portion of the equity interest held by such shareholder. These powers of attorney will remain in force for 10 years. Upon request by Wheels Technology, each shareholder of Beijing CHJ shall extend the term of its authorization prior to its expiration.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Pursuant to the Business Operation Agreement by and among Wheels Technology, Xindian Information, and each of the shareholders of Xindian Information, Xindian Information will not take any action that may have a material adverse effect on its assets, businesses, human resources, rights, obligations, or business operations without prior written consent of Wheels Technology. Xindian Information and its shareholders further agreed to accept and strictly follow Wheels Technology's instructions relating to Xindian Information's daily operations, financial management, and election of directors appointed by Wheels Technology. The shareholders of Xindian Information agree to transfer any dividends or any other income or interests they receive as the shareholders of Xindian Information immediately and unconditionally to Wheels Technology. Unless Wheels Technology terminates this agreement in advance, this agreement will remain effective for 10 years and can be renewed upon request by Wheels Technology prior to its expiration. Xindian Information and its shareholders have no right to terminate this agreement unilaterally. Pursuant to the Business Operation Agreement, each shareholder of Xindian Information has executed a power of attorney to irrevocably authorize Wheels Technology to act as his or her attorney-in-fact to exercise all of his or her rights as a shareholder of Xindian Information. The terms of these powers of attorney are substantially similar to the powers of attorney executed by the shareholders of Beijing CHJ described above.

Spousal Consent Letters.

Spouses of three shareholders of Beijing CHJ, who collectively hold 100% of equity interests in Beijing CHJ, have each signed a spousal consent letter. Each signing spouse of the relevant shareholder acknowledges that the equity interests in Beijing CHJ held by the relevant shareholder of Beijing CHJ are the personal assets of that shareholder and not jointly owned by the married couple. Each signing spouse also has unconditionally and irrevocably disclaimed his or her rights to the relevant equity interests and any associated economic rights or interests to which he or she may be entitled pursuant to applicable laws, and has undertaken not to make any assertion of rights to such equity interests and the underlying assets. Each signing spouse has agreed and undertaken that he or she will not carry out in any circumstances any conducts that are contradictory to the contractual arrangements and the spousal consent letter.

Spouses of ten shareholders of Xindian Information, who collectively hold 100% equity interests in Xindian Information, have each signed a spousal consent letter, which includes terms substantially similar to the spousal consent letter relating to Beijing CHJ described above.

Exclusive Consultation and Service Agreements.

Pursuant to the Exclusive Consultation and Service Agreement by and between Wheels Technology, and Beijing CHJ, Wheels Technology has the exclusive right to provide Beijing CHJ with software technology development, technology consulting, and technical services required by Beijing CHJ's business. Without Wheels Technology's prior written consent, Beijing CHJ cannot accept any same or similar services subject to this agreement from any third party. Beijing CHJ agrees to pay Wheels Technology an annual service fee at an amount that is equal to 100% of its quarterly net income or an amount that is adjusted in accordance with Wheels Technology's sole discretion for the relevant quarter and also the mutually agreed amount for certain other technical services, both of which should be paid within 10 days after Wheels Technology sends invoice within 30 days after the end of the relevant calendar quarter. Wheels Technology has exclusive ownership of all the intellectual property rights created as a result of the performance of the Exclusive Consultation and Service Agreement, to the extent permitted by applicable PRC laws. To guarantee Beijing CHJ's performance of its obligations thereunder, the shareholders have agreed to pledge their equity interests in Beijing CHJ to Wheels Technology pursuant to the Equity Pledge Agreement. The Exclusive Consultation and Service Agreement will remain effective for 10 years, unless otherwise terminated by Wheels Technology. Upon request by Wheels Technology, the term of this agreement can be renewed prior to its expiration.

The Exclusive Consultation and Service Agreement by and between Wheels Technology and Xindian Information includes terms substantially similar to the Exclusive Consultation and Service Agreement relating to Beijing CHJ described above.

Equity Option Agreements.

Pursuant to the Equity Option Agreement by and among Wheels Technology, Beijing CHJ, and each of the shareholders of Beijing CHJ, the shareholders of Beijing CHJ have irrevocably granted Wheels Technology an exclusive option to purchase all or part of their equity interests in Beijing CHJ, and Beijing CHJ has irrevocably granted Wheels Technology an exclusive option to purchase all or part of its assets. Wheels Technology or its designated person may exercise such options to purchase equity interests at the lower of the amount of their respective paid-in capital in Beijing CHJ and the lowest price permitted under applicable PRC laws. Wheels

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Technology or its designated person may exercise the options to purchase assets at the lowest price permitted under applicable PRC laws. The shareholders of Beijing CHJ have undertaken that, without Wheels Technology's prior written consent, they will not, among other things, (i) transfer or otherwise dispose of their equity interests in Beijing CHJ, (ii) create any pledge or encumbrance on their equity interests in Beijing CHJ, (iii) change Beijing CHJ's registered capital, (iv) merge Beijing CHJ with any other entity, (v) dispose of Beijing CHJ's material assets (except in the ordinary course of business), or (vi) amend Beijing CHJ's articles of association. The Exclusive Option Agreement will remain effective for 10 years and can be renewed upon request by Wheels Technology.

The Equity Option Agreement by and between Wheels Technology, Xindian Information, and each of the shareholders of Xindian Information includes terms substantially similar to the Equity Option Agreement relating to Beijing CHJ described above.

Equity Pledge Agreements.

Pursuant to the Equity Pledge Agreement by and between Wheels Technology and the shareholders of Beijing CHJ, the shareholders of Beijing CHJ have agreed to pledge 100% of equity interests in Beijing CHJ to Wheels Technology to guarantee the performance by the shareholders of their obligations under the Exclusive Option Agreement and the Powers of Attorney, as well as the performance by Beijing CHJ of its obligations under the Exclusive Consultation and Service Agreement. In the event of a breach by Beijing CHJ or any shareholder of contractual obligations under the Equity Pledge Agreement, Wheels Technology, as pledgee, will have the right to dispose of the pledged equity interests in Beijing CHJ and will have priority in receiving the proceeds from such disposal. The shareholders of Beijing CHJ also have undertaken that, without prior written consent of Wheels Technology, they will not dispose of, create, or allow any encumbrance on the pledged equity interests.

Wheels Technology and the shareholders of Xindian Information entered into an Equity Pledge Agreement, which includes terms substantially similar to the Equity Pledge Agreement relating to Beijing CHJ described above.

Registration of the equity pledge relating to Beijing CHJ and Xindian Information with the local branch of the SAMR in accordance with the PRC Property Law has been completed.

(d) Risks in relations to the VIE structure

According to the Guidance Catalog of Industries for Foreign Investment promulgated in 2017, or the Catalog, foreign ownership of certain areas of businesses are subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (except for e-commerce) or in an automaker that manufactures whole vehicles. The Catalog was amended in 2018 to lift restrictions on foreign investment in new energy vehicle manufacturers.

Part of the Group's business is conducted through the VIEs of the Group, of which the Company is the ultimate primary beneficiary. In the opinion of the management, the contractual arrangements with the VIEs and the nominee shareholders are in compliance with PRC laws and regulations and are legally binding and enforceable. The nominee shareholders indicate they will not act contrary to the contractual arrangements. However, there are substantial uncertainties regarding the interpretation and application of the PRC laws and regulations including those that govern the contractual arrangements, which could limit the Group's ability to enforce these contractual arrangements and if the nominee shareholders of the VIEs were to reduce their interests in the Group, their interest may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the contractual arrangements.

It is possible that the Group's operations of certain of its businesses through the VIEs could be found by the PRC authorities to be in violation of the PRC laws and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. While the Group's management considers the possibility of such a finding by PRC regulatory authorities under current PRC law and regulations to be remote, on March 15, 2019, the National People's Congress adopted the Foreign Investment Law of the PRC, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law, and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law of the PRC embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For example, the Foreign Investment Law of the PRC adds a

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

catch-all clause to the definition of “foreign investment” so that foreign investment, by its definition, includes “investments made by foreign investors in China through other means defined by other laws or administrative regulations or provisions promulgated by the State Council” without further elaboration on the meaning of “other means.” It leaves leeway for the future legislations promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. It is therefore uncertain whether the Group’s corporate structure will be seen as violating the foreign investment rules as the Group are currently leveraging the contractual arrangements to operate certain businesses in which foreign investors are prohibited from or restricted to investing. Furthermore, if future legislations prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangement, the Group may face substantial uncertainties as to whether the Group can complete such actions in a timely manner, or at all. If the Group fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, the Group’s current corporate structure, corporate governance and business operations could be materially and adversely affected.

If the Group’s corporate structure or the contractual arrangements with the VIEs were found to be in violation of any existing or future PRC laws and regulations, the PRC regulatory authorities could, within their respective jurisdictions:

- revoke the business licenses and/or operating licenses of such entities;
- discontinue or place restrictions or onerous conditions on the Group’s operation through any transactions between the PRC subsidiaries and the VIEs;
- impose fines, confiscate the income from the PRC subsidiaries or the VIEs, or imposing other requirements with which the VIEs may not be able to comply;
- require the Group to restructure the ownership structure or operations, including terminating the contractual arrangements with the VIEs and deregistering the equity pledges of the VIEs, which in turn would affect the Group’s ability to consolidate, derive economic interests from, or exert effective control over the VIEs;
- restrict or prohibit the Group’s use of the proceeds of this offering to finance the Group’s business and operations in China; or
- take other regulatory or enforcement actions that could be harmful to the Group’s business.

The imposition of any of these penalties may result in a material and adverse effect on the Group’s ability to conduct the Group’s businesses. In addition, if the imposition of any of these penalties causes the Group to lose the right to direct the activities of any of the VIEs (through its equity interests in its subsidiaries) or the right to receive their economic benefits, the Group will no longer be able to consolidate the relevant VIEs and its subsidiaries, if any. In the opinion of management, the likelihood of loss in respect of the Group’s current ownership structure or the contractual arrangements with its VIEs is remote. The Group’s operations depend on the VIEs and their nominee shareholders to honor their contractual arrangements with the Group. These contractual arrangements are governed by PRC law and disputes arising out of these agreements are expected to be decided by arbitration in the PRC. The management believes that each of the contractual arrangements constitutes valid and legally binding obligations of each party to such contractual arrangements under the PRC laws. However, the interpretation and implementation of the laws and regulations in the PRC and their application on the legality, binding effect and enforceability of contracts are subject to the discretion of competent PRC authorities, and therefore there is no assurance that relevant PRC authorities will take the same position as the Group herein in respect of the legality, binding effect and enforceability of each of the contractual arrangements. Meanwhile, since the PRC legal system continues to evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to the Group to enforce the contractual arrangements should the VIEs or the nominee shareholders of the VIEs fail to perform their obligations under those arrangements.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The following consolidated financial information of the Group's VIEs and VIEs' subsidiaries as of December 31, 2018, 2019, 2020, and March 31, 2021 and for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021 were included in the Historical Financial Information as follows:

| | As of December 31, | | | As of March 31, |
|--|--------------------|------------------|-------------------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Current assets: | | | | |
| Cash and cash equivalents | 12,479 | 240,933 | 1,546,193 | 2,584,861 |
| Restricted cash | 25,000 | 14,455 | 1,234,178 | 2,055,933 |
| Short-term investments | 859,913 | 1,278,153 | 2,581,690 | 3,405,125 |
| Trade receivable | — | 8,303 | 103,271 | 103,174 |
| Intra-group receivables | 42,417 | 1,927,560 | 7,704,630 | 9,443,811 |
| Inventories | 155 | 389,031 | 271,379 | 357,718 |
| Prepayments and other current assets | 1,257,772 | 556,112 | 254,061 | 316,986 |
| Assets held for sale, current | 21,040 | 17,599 | — | — |
| Non-current assets: | | | | |
| Long-term investments | 670,633 | 600,615 | 707,685 | 707,350 |
| Property, plant and equipment, net | 1,451,776 | 1,755,686 | 2,335,824 | 2,384,064 |
| Operating lease right-of-use assets, net | 363,957 | 508,871 | 1,182,134 | 1,185,767 |
| Intangible assets, net | 671,384 | 673,517 | 682,083 | 683,017 |
| Other non-current assets | 265,090 | 130,749 | 218,531 | 499,502 |
| Assets held for sale, non-current | 33,090 | 30,253 | — | — |
| Total assets | 5,674,706 | 8,131,837 | 18,821,659 | 23,727,308 |
| Current liabilities: | | | | |
| Short-term borrowings | 20,000 | 238,957 | — | — |
| Trade and notes payable | 337,107 | 616,340 | 3,107,646 | 4,238,120 |
| Intra-group payable | 9,824 | 3,732,883 | 12,203,705 | 16,081,407 |
| Amounts due to related parties | 5,747 | 5,469 | 19,206 | 16,135 |
| Operating lease liabilities, current | 41,093 | 176,669 | 170,033 | 182,667 |
| Finance lease liabilities, current | 66,111 | 360,781 | — | — |
| Deferred revenue, current | — | 56,695 | 230,720 | 166,541 |
| Accruals and other current liabilities | 1,240,061 | 660,010 | 453,731 | 482,731 |
| Convertible debts, current | — | 692,520 | — | — |
| Liabilities held for sale, current | 6,378 | 2,862 | — | — |
| Non-current liabilities: | | | | |
| Long-term borrowings | — | — | 511,638 | 518,631 |
| Deferred revenue, non-current | — | 5,943 | 102,898 | 139,546 |
| Operating lease liabilities, non-current | 222,738 | 241,109 | 973,455 | 975,405 |
| Finance lease liabilities, non-current | 360,385 | — | 366,883 | 372,576 |
| Convertible debts | 644,602 | — | — | — |
| Deferred tax liabilities | — | — | 36,309 | 62,264 |
| Other non-current liabilities | — | 5,519 | 157,907 | 209,000 |
| Total liabilities | 2,954,046 | 6,795,757 | 18,334,131 | 23,445,023 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

These balances have been reflected in the Historical Financial Information with intercompany transactions eliminated.

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|---------------------------------|----------------|------------------|--------------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Net loss from continuing operations | (1,076,613) | (1,234,283) | (495,209) | (254,636) | (319,067) |
| Net (loss)/income from discontinued operations | (367,022) | (20,662) | 14,373 | 14,373 | — |
| | | | | | |
| | For the year ended December 31, | | | For the three months ended March 31, | |
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Net cash (used in)/provided by operating activities | (1,223,050) | (1,607,435) | 3,540,411 | (139,171) | 3,077,820 |
| Net cash used in investing activities | (214,027) | (1,976,964) | (1,665,982) | (403,490) | (1,217,397) |
| Net cash provided by financing activities | 1,019,824 | 3,782,378 | 650,595 | 680,595 | — |
| Effects of exchange rate changes on cash, cash equivalents and restricted cash | (1,320) | 19,746 | (188) | 1,971 | — |
| Net (decrease)/increase in cash, cash equivalents and restricted cash | (418,573) | 217,725 | 2,524,836 | 139,905 | 1,860,423 |
| | | | | | |
| Cash, cash equivalents and restricted cash at beginning of the year/period | 456,383 | 37,810 | 255,535 | 255,535 | 2,780,371 |
| Cash, cash equivalents and restricted cash at end of the year/period | 37,810 | 255,535 | 2,780,371 | 395,440 | 4,640,794 |
| | | | | | |
| Less: Cash, cash equivalents and restricted cash of discontinued operations at end of the year/period | 331 | 147 | — | — | — |
| Cash, cash equivalents and restricted cash of continuing operations at end of the year/period | 37,479 | 255,388 | 2,780,371 | 395,440 | 4,640,794 |

The Company's involvement with the VIEs is through the contractual arrangements disclosed in Note 1(c). All recognized assets held by the VIEs are disclosed in the table above.

In accordance with the contractual arrangements between Wheels Technology, the VIEs and the VIEs' shareholders, Wheels Technology has the power to direct activities of the Group's consolidated VIEs and VIEs' subsidiaries, and can have assets transferred out of the Group's consolidated VIEs and VIEs' subsidiaries. Therefore, it is considered that there is no asset in the Group's consolidated VIEs and VIEs' subsidiaries that can be used only to settle their obligations except for registered capitals and PRC statutory reserves of the Group's consolidated VIEs amounting to RMB6,266,508, RMB6,429,134, RMB7,930,831, RMB6,894,723 as of December 31, 2018, 2019, 2020, and March 31, 2021, respectively. As the Group's consolidated VIEs and VIEs' subsidiaries are incorporated as limited liability companies under the PRC Company Law, the creditors do not have recourse to the general credit of Wheels Technology for all the liabilities of the Group's consolidated VIEs and VIEs' subsidiaries. The total shareholders' deficit of the Group's consolidated VIEs and VIEs' subsidiaries was RMB2,036,081, RMB3,296,997, RMB3,772,758, RMB4,093,279 as of December 31, 2018, 2019, 2020, and March 31, 2021, respectively.

Currently there is no contractual arrangement that could require the Company, Wheels Technology or other subsidiaries of the Company to provide additional financial support to the Group's consolidated VIEs and VIEs' subsidiaries. As the Company is conducting certain businesses in the PRC through the consolidated VIEs and VIEs' subsidiaries, the Company may provide additional financial support on a discretionary basis in the future, which could expose the Group to a loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(e) Impact of the COVID-19

Due to the COVID-19 pandemic and the related nationwide precautionary and control measures that were adopted in China starting in January 2020, the Company postponed the production in its Changzhou manufacturing facility after the Chinese New Year holiday in February 2020, and also experienced short term delays in the suppliers' delivery of certain raw materials needed for production. Subsequent to March 31, 2020, the Group continuously increased their production capacity and delivery to normal level as the Group had recovered from the adverse impact of COVID-19 across China. The Group concluded that there would be no material impact on the Group's long-term forecast.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of presentation**

The Historical Financial Information have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Significant accounting policies followed by the Group in the preparation of the Historical Financial Information are summarized below.

(b) Principles of consolidation

The Historical Financial Information include the financial statements of the Company, its subsidiaries, VIEs and VIEs' subsidiaries for which the Company is the ultimate primary beneficiary.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors (the "Board"); to cast majority of votes at the meeting of the Board or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with, ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity.

All significant transactions and balances between the Company, its subsidiaries, VIEs and VIEs' subsidiaries have been eliminated upon consolidation.

(c) Use of estimates

The preparation of the Historical Financial Information in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenue and expenses during the reported period in the Historical Financial Information and accompanying notes.

Significant accounting estimates reflected in the Historical Financial Information mainly include, but are not limited to, standalone selling price of each distinct performance obligation in revenue recognition and determination of the amortization period of these obligations, the valuation of share-based compensation arrangements, fair value of investments and derivative instruments, fair value of warrant liabilities and derivative liabilities, useful lives of property, plant and equipment, useful lives of intangible assets, assessment for impairment of long-lived assets and intangible assets, the provision for credit losses of financial assets, lower of cost and net realizable value of inventories, product warranties, determination of vendor rebate, assessment of variable lease payment, and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(d) Functional currency and foreign currency translation

The Group's reporting currency is RMB. The functional currency of the Company and its subsidiary which is incorporated in Hong Kong is United States dollars ("US\$"). The functional currencies of the other subsidiaries, the VIEs and VIEs' subsidiaries are their respective local currencies. The determination of the respective functional currency is based on the criteria set out by ASC 830, *Foreign Currency Matters*.

Transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the applicable exchange rates at the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are measured using the exchange rates at the dates of the initial transactions.

The financial statements of the Group's entities of which the functional currency is not RMB are translated from their respective functional currency into RMB. Assets and liabilities denominated in foreign currencies are translated into RMB at the exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated into RMB at the appropriate historical rates. Income and expense items are translated into RMB using the periodic average exchange rates. The resulting foreign currency translation adjustments are recorded in other comprehensive income in the consolidated statements of comprehensive loss, and the accumulated foreign currency translation adjustments are presented as a component of accumulated other comprehensive income in the consolidated statements of shareholders' (deficit)/equity. Total foreign currency translation adjustment income was RMB12,954, RMB2,851 and RMB107,644 for the years ended December 31, 2018, 2019, and for the three months ended March 31, 2021, respectively, and the foreign currency translation adjustment loss was RMB5,088 and RMB1,020,728 for the three months ended March 31, 2020 and for the year ended December 31, 2020, respectively.

(e) Convenience translation

Translations of balances in the consolidated balance sheets, consolidated statements of comprehensive loss and consolidated statements of cash flows from RMB into US\$ as of and for the year ended December 31, 2020 and for the three months ended March 31, 2021 are solely for the convenience of the reader and were calculated at the rate of US\$1.00 = RMB6.5518, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on March 31, 2021. No representation is made that the RMB amounts represent or could have been, or could be, converted, realized or settled into US\$ at that rate on March 31, 2021, or at any other rate.

(f) Cash, cash equivalents and restricted cash

Cash and cash equivalents represent cash on hand, time deposits and highly-liquid investments placed with banks or other financial institutions, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less. As of December 31, 2018, 2019, 2020, and March 31, 2021, the Group had cash held in accounts managed by online payment platforms such as China Union Pay in connection with the collection of vehicle sales for a total amount of nil, RMB5,243, RMB17,844, and RMB23,731 respectively, which have been classified as cash and cash equivalents on the Historical Financial Information.

Cash that is restricted as to withdrawal for use or pledged as security is reported separately on the face of the consolidated balance sheets, and is not included in the total cash and cash equivalents in the consolidated statements of cash flows. The Group's restricted cash mainly represents (a) the secured deposits held in designated bank accounts for issuance of letter of credit, bank guarantee and bank acceptance bill; (b) the deposits held in designated bank accounts for security of the repayment of the notes payable (Note 14).

Cash, cash equivalents and restricted cash as reported in the consolidated statements of cash flows are presented separately on our consolidated balance sheets as follows:

| | As of December 31, | | | As of March 31, |
|--|--------------------|------------------|-------------------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Cash and cash equivalents | 70,192 | 1,296,215 | 8,938,341 | 6,070,720 |
| Restricted cash | 25,000 | 140,027 | 1,234,178 | 2,111,642 |
| Total cash, cash equivalents and restricted cash of continuing operations | 95,192 | 1,436,242 | 10,172,519 | 8,182,362 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(g) Time deposits and short-term investments

Time deposits are those balances placed with the banks with original maturities longer than three months but less than one year.

Short-term investments are investments in financial instruments with variable interest rates. These financial instruments have maturity dates within one year and are classified as short-term investments. The Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Fair value is estimated based on quoted prices of similar financial products provided by financial institutions at the end of each period. Changes in the fair value are reflected in the consolidated statements of comprehensive loss as "Investment income/(loss), net."

(h) Current expected credit losses

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses*, which introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables, loans and net investments in leases. The Group assessed that trade receivable, other current assets, and other non-current assets are within the scope of ASC 326. The Group has identified the relevant risk characteristics of trade receivables, other current assets, and other non-current assets which include size, type of the services or the products the Group provides, or a combination of these characteristics, the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses, etc. Other key factors that influence the expected credit loss analysis include industry-specific factors that could impact the credit quality of the Group's receivables. This is assessed at each quarter based on the Group's specific facts and circumstances. The Group adopted this ASC 326 and several associated ASUs on January 1, 2021 using a modified retrospective approach with a cumulative effect recorded as increase of accumulated deficit with amount of RMB1,955. As of January 1, 2021, upon the adoption, the expected credit loss provision for the current assets and non-current assets were RMB972 and RMB983, respectively. For the three months ended March 31, 2021, the Group recorded RMB102 expected credit losses in selling, general and administrative expenses. As of March 31, 2021, the expected credit loss provision for the current assets and non-current assets were RMB897 and RMB1,160, respectively.

The Group typically does not carry significant trade receivable related to vehicle sales and related sales as customer payments are due prior to vehicle delivery, except for amounts of vehicle sales in relation to government subsidy to be collected from government on behalf of customers. Other current assets and other non-current assets primarily consist of other receivable and deposits. The Group recorded a provision for current expected credit losses. The following table summarizes the activity in the allowance for credit losses related to trade receivable, other current assets and other non-current assets for the three months ended March 31, 2021:

| | For the three months ended March 31, 2021 |
|---------------------------------|--|
| Balance as of December 31, 2020 | — |
| Adoption of ASC 326 | 1,955 |
| | <hr/> |
| Balance as of January 1, 2021 | 1,955 |
| Current period provision | 264 |
| Reversal | (162) |
| | <hr/> |
| Balance as of March 31, 2021 | 2,057 |
| | <hr/> <hr/> |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(i) Trade receivable and allowance for doubtful accounts

Trade receivable primarily include amounts of vehicle sales related to government subsidy to be collected from government on behalf of customers. The Group provides an allowance against trade receivable based on expected credit loss approach and writes off trade receivable when they are deemed uncollectible. No allowance for doubtful accounts for trade receivable were recognized for the years ended December 31, 2018, 2019 and 2020. The Group recorded a provision for current expected credit losses for trade receivable amounting to RMB315 as of March 31, 2021.

(j) Derivative instruments

Derivative instruments are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheets in either other current or non-current assets or other current liabilities or non-current liabilities depending upon maturity and commitment. Changes in the fair value of derivatives are either recognized periodically in the consolidated statements of comprehensive income/(loss) or in other comprehensive income/(loss) depending on the use of the derivatives and whether they qualify for hedge accounting. The Group selectively uses financial instruments to manage market risk associated with exposure to fluctuations in interest rates and foreign currency rates. These financial exposures are monitored and managed by the Group as an integral part of its risk management program. The Group does not engage in derivative instruments for speculative or trading purposes. The Group's derivative instruments are not qualified for hedge accounting, thus changes in fair value are recognized in Investment income/(loss), net in the consolidated statements of comprehensive loss. The cash flows of derivative financial instruments are classified in the same category as the cash flows from the items subject to the economic hedging relationships. The estimated fair value of the derivatives is determined based on relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques.

Derivative instruments are presented as net if rights of setoff exist, with all of the following conditions met: (a) each of two parties owes the other determinable amounts; (b) the reporting party has the right to set off the amount owed with the amount owed by the other party; (c) the reporting party intends to set off; and (d) the right of setoff is enforceable at law.

The following table summarizes the details of the foreign exchange forwards and options entered into by the Group as at March 31, 2021:

| Description | Gross amounts of recognized assets | Gross amounts offset in the statement of financial position | Net amounts of assets presented in the statement of financial position |
|---------------------------------------|---|--|---|
| Foreign exchange forwards and options | 20,178 | 11,994 | 8,184 |

As of March 31, 2021, the Group had outstanding derivative instruments with notional amounts of US\$405,000 and recorded RMB22,922 fair value loss for the three months ended March 31, 2021 in investment income/(loss), net.

(k) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is calculated on the weighted average basis and includes all costs to acquire and other costs to bring the inventories to their present location and condition. The Group records inventory write-downs for excess or obsolete inventories based upon assumptions on current and future demand forecasts. If the inventory on hand is in excess of future demand forecast, the excess amounts are written off. The Group also reviews inventory to determine whether its carrying value exceeds the net amount realizable upon the ultimate sale of the inventory. This requires the determination of the estimated selling price of the vehicles less the estimated cost to convert inventory on hand into a finished product. Once inventory is written-down, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. No inventory write-downs were recognized for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(l) Assets held for sale

The Group classifies long-lived assets as held for sale in the period that (i) it has approved and committed to a plan to sell the asset or asset group ("asset"), (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale within one year (subject to certain events or circumstances), (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Group initially and subsequently measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in impairment of long-lived assets in the period in which the held for sale criteria are met. Conversely, gains are generally not recognized on the sale of a long-lived asset until the date of sale. Upon designation as an asset held for sale, the Group stops recording depreciation expense on the asset. The Group assesses the fair value of assets held for sale less any costs to sell at each reporting period until the asset is no longer classified as held for sale.

(m) Property, plant and equipment, net

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Property, plant and equipment are depreciated at rates sufficient to write off their costs less impairment and residual value, if any, over their estimated useful lives on a straight-line basis. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets. Direct costs that are related to the construction of property, equipment and software and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property, equipment and software items and the depreciation of these assets commences when the assets are ready for their intended use.

The estimated useful lives are as follows:

| | Useful lives |
|------------------------|--|
| Buildings | 20 years |
| Buildings improvements | 5 to 10 years |
| Production facilities | 5 to 10 years |
| Equipment | 3 to 5 years |
| Motor vehicles | 4 years |
| Mold and tooling | Unit-of-production |
| Leasehold improvements | Shorter of the estimated useful life or lease term |

The cost of maintenance and repairs is expensed as incurred, whereas the cost of renewals and betterment that extends the useful lives of property, plant and equipment is capitalized as additions to the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in the consolidated statements of comprehensive loss.

(n) Intangible assets, net

Intangible assets are carried at cost less accumulated amortization and impairment, if any. Intangible assets are amortized using the straight-line method over the estimated useful lives as below:

| | Useful lives |
|-------------------------------------|---------------|
| Automotive Manufacturing Permission | Indefinite |
| Software and Patents | 5 to 10 years |

No useful life was determined in the contract terms when the Company acquired the automotive manufacturing permission. The Company expects that the automotive manufacturing permission is unlikely to be terminated based on industry experience and will continue to contribute revenue in the future. Therefore, the Company considers the useful life of such intangible assets to be indefinite.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The Company estimates the useful life of the software and patents to be 5 to 10 years based on the contract terms, expected technical obsolescence and innovations and industry experience of such intangible assets.

(o) Impairment of long-lived assets and intangible assets with indefinite lives

Long-lived assets include property, plant and equipment and intangible assets with definite lives. Long-lived assets are assessed for impairment, whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate the carrying value of an asset may not be recoverable in accordance with ASC 360. The Company measures the carrying amount of long-lived assets against the estimated undiscounted future cash flows associated with it. The impairment exists when the estimated undiscounted future cash flows are less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Nil, RMB18,066, RMB30,381, nil and nil impairment of long-lived assets were recognized for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively.

Intangible assets with indefinite lives are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired in accordance with ASC 350. The Company first performs a qualitative assessment to assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. If after performing the qualitative assessment, the Company determines that it is more likely than not that the indefinite-lived intangible asset is impaired, the Company calculates the fair value of the intangible asset and perform the quantitative impairment test by comparing the fair value of the asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, the Company recognizes an impairment loss in an amount equal to that excess. In consideration of the growing electric vehicle industry in China, the Group's improving financial performance, the stable macroeconomic conditions in China and the Group's future manufacturing plans, the Company determined that it is not likely that the indefinite-lived intangible assets was impaired as of December 31, 2018, 2019, 2020 and March 31, 2021.

(p) Long-term investments

Long-term investments are comprised of investments in publicly traded companies and privately-held companies.

The Group adopted ASU 2016-01 on January 1, 2018. The Group measures equity investments other than equity method investments at fair value through earnings. For those equity investments without readily determinable fair values, the Group elects to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Under this measurement alternative, changes in the carrying value of the equity investment are required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer. The implementation guidance notes that an entity should make a "reasonable efforts" to identify price changes that are known or that can reasonably be known.

Pursuant to ASC 321, for equity investments measured at fair value with changes in fair value recorded in earnings, the Group does not assess whether those securities are impaired. For those equity investments that the Group elects to use the measurement alternative, the Group makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Group estimates the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the Group recognizes an impairment loss equal to the difference between the carrying value and fair value.

Investments in entities over which the Group can exercise significant influence and hold an investment in common shares or in-substance common shares (or both) of the investee but do not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC topic 323, *Investment—Equity Method and Joint Ventures* ("ASC 323"). Under the equity method, the Group initially records its investments at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investment on our consolidated balance sheets. The Group subsequently adjusts the carrying amount of the investments to recognize our proportionate share of each equity investee's net income or loss into earnings after the date of investment. The Group evaluates the equity method investments for impairment under ASC 323. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The Group assesses its investments in privately-held companies for impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the companies, including current earnings trends and undiscounted cash flows, and other company-specific information, such as recent financing rounds. The fair value determination, particularly for investments in privately-held companies whose revenue model is still unclear, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments. If this assessment indicates that an impairment exists, the Group estimates the fair value of the investment and writes down the investment to its fair value, taking the corresponding charge to the consolidated statements of comprehensive loss.

(q) Employee benefits

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries and VIEs and VIEs' subsidiaries of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. Total amounts of such employee benefit expenses, which were expensed as incurred, were approximately RMB110,800, RMB168,019, RMB133,162, RMB37,550 and RMB73,618 for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively.

(r) Product warranties

The Group provides product warranties on all new vehicles based on the contracts with its customers at the time of sale of vehicles. The Group accrues a warranty reserve for the vehicles sold by multiplying the expected unit costs for warranty services by the sales volume, which includes the best estimate of projected costs to repair or replace items under warranties. These estimates are primarily based on the estimates of the nature, frequency and average costs of future claims. These estimates are inherently uncertain given the Group's relatively short history of sales, and changes to the historical or projected warranty experience may cause material changes to the warranty reserve in the future. The portion of the warranty reserve expected to be incurred within the next 12 months is included within the accrued and other current liabilities while the remaining balance is included within other non-current liabilities in the consolidated balance sheets. Warranty cost is recorded as a component of cost of sales in the consolidated statements of comprehensive loss. The Group reevaluates the adequacy of the warranty accrual on a regular basis.

The Group recognizes the benefit from a recovery of the costs associated with the warranty when specifics of the recovery have been agreed with the Group's suppliers and the amount of the recovery is virtually certain.

The accrued warranty activity consists of the following (in thousands):

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--|---------------------------------|-------|---------|--------------------------------------|---------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Accrued warranty at beginning of the year/period | — | — | 6,996 | 6,996 | 233,366 |
| Warranty cost incurred | — | (163) | (8,258) | (48) | (3,467) |
| Provision for warranty | — | 7,159 | 234,628 | 20,211 | 87,789 |
| | | | | | |
| Accrued warranty at end of the year/period | — | 6,996 | 233,366 | 27,159 | 317,688 |
| | | | | | |
| Including: Accrued warranty, current | — | 1,477 | 55,138 | 5,871 | 72,229 |
| Accrued warranty, non-current | — | 5,519 | 178,228 | 21,288 | 245,459 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(s) Revenue recognition

The Group launched the first volume manufactured extended-range electric vehicle, Li ONE, to the public in October 2018 and started making deliveries to customers in the fourth quarter of 2019. Revenues of the Group is primarily derived from sales of vehicle and embedded products and services, as well as the sales of Li Plus Membership.

The Group adopted ASC 606, *Revenue from Contracts with Customers*, on January 1, 2018 by applying the full retrospective method.

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

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

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

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

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

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

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

Vehicle sales

The Group recognizes revenue from sales of vehicles, currently the Li ONE, together with a number of embedded products and services. There are multiple distinct performance obligations explicitly stated in the sales contracts including sales of Li ONE, charging stalls, vehicle internet connection services, firmware over-the-air upgrades (or "FOTA upgrades") and initial owner extended lifetime warranty subject to certain conditions, which are accounted for in accordance with ASC 606. The standard warranty provided by the Group is accounted for in accordance with ASC 460, *Guarantees*, and the estimated costs are recorded as a liability when the Group transfers the control of Li ONE to a customer.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Customers only pay the amount after deducting the government subsidies to which they are entitled for the purchase of new energy vehicles, which is applied on their behalf and collected by the Group from the government according to the applicable government policy. The Group has concluded that government subsidies should be considered as a part of the transaction price it charges the customers for the new energy vehicles, as the subsidy is granted to the purchaser of the new energy vehicles and the purchaser remains liable for such amount in the event the subsidies were not received by the Group due to his fault such as refusal or delay of providing application information.

The overall contract price is allocated to each distinct performance obligation based on the relative estimated standalone selling price in accordance with ASC 606. The revenue for sales of the Li ONE and charging stalls are recognized at a point in time when the control of the product is transferred to the customer. For the vehicle internet connection service and FOTA upgrades, the Group recognizes the revenue using a straight-line method over the service period. As for the initial owner extended lifetime warranty, given the limited operating history and lack of historical data, the Group recognizes the revenue over time based on a straight-line method over the extended warranty period initially, and will continue monitoring the cost pattern periodically and adjust the revenue recognition pattern to reflect the actual cost pattern as it becomes available.

As the contract price for the vehicle and all embedded products and services must be paid in advance, which means the payments are received prior to the transfer of goods or services by the Group, the Group records a contract liability (deferred revenue) for the allocated amount regarding those unperformed obligations.

Sales of Li Plus Membership

The Group also sells the Li Plus Membership to enrich the ownership experience of customers. Total Li Plus Membership fee is allocated to each performance obligation based on the relative estimated standalone selling price. And the revenue for each performance obligation is recognized either over the service period or at a point in time when the relevant goods or service is delivered or when the membership expired, whichever is earlier.

Customer loyalty points

Beginning in January 2020, the Group offers customer loyalty points, which can be used in the Group's online store to redeem the Group's merchandise or services. The Group determines the value of each customer loyalty point based on cost of the Group's merchandise or service that can be obtained through redemption of customer loyalty points.

The Group concludes the customer loyalty points offered to customers in connection with the purchase of the Li ONE is a material right and is considered as a separate performance obligation according to ASC 606, and should be taken into consideration when allocating the transaction price of the sales of vehicle. The amount allocated to the customer loyalty points as separate performance obligation is recorded as contract liability (deferred revenue) and revenue should be recognized when the customer loyalty points are used or expired.

Customers or users of the mobile application can also obtain customer loyalty points through other ways, such as referring new customers to purchase the vehicles via the mobile application. The Group offers these customer loyalty points to encourage user engagement and generate market awareness. As a result, the Group accounts for such points as selling and marketing expenses with a corresponding liability recorded under accruals and other current liabilities upon the points offering.

Practical expedients and exemptions

The Group elects to expense the costs to obtain a contract as incurred given the majority of the contract considerations for vehicle sales are allocated to the sales of Li ONE and recognized as revenue upon transfer of control of the vehicles, which is within one year after entering the sales contracts.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(t) Cost of sales

Cost of sales consists of direct production and material costs, labor costs, manufacturing overhead (including depreciation of assets associated with the production), shipping and logistic costs and reserves for estimated warranty costs. The cost of sales also includes adjustments to warranty costs and charges to write-down the carrying value of the inventory when it exceeds its estimated net realizable value and to provide for on-hand inventory that is either obsolete or in excess of forecasted demand.

(u) Research and development expenses

Research and development ("R&D") expenses are primarily comprised of salaries, bonuses and benefits for those employees engaged in research, design and development activities; design and development expenses, primarily including consultation fees, validation and testing fees; depreciation and amortization expenses of equipment and software of R&D activities and other expenses. R&D costs are expensed as incurred.

(v) Sales and marketing expenses

Sales and marketing expenses consist primarily of salaries and other compensation related expenses for sales and marketing personnel, marketing and promotional expenses, rental and related expenses for retail stores and delivery and servicing centers and other expenses.

(w) General and administrative expenses

General and administrative expenses consist primarily of salaries, bonuses and benefits for employees involved in general corporate functions, including finance, legal and human resources, depreciation and amortization expenses primarily relating to leasehold improvements, factory buildings, facilities, and equipment prior to the start of production, rental and other general corporate related expenses.

(x) Fair value

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be either recorded or disclosed at fair value, the Group considers the principal or most advantageous market in which it would transact, and it also considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

(y) Share-based compensation

The Company grants share options to eligible employees, directors and consultants and accounts for share-based compensation in accordance with ASC 718, *Compensation—Stock Compensation*.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Employees' share-based compensation awards granted with service conditions and the occurrence of an IPO as performance condition, are measured at the grant date fair value. Cumulative share-based compensation expenses for the options that have satisfied the service condition will be recorded upon the completion of the IPO, using the graded-vesting method. This performance condition was met upon the completion of the Company' IPO in August 2020 and the associated share-based compensation expense for awards vested as of that date were recognized. Employees' share-based compensation awards granted with only service conditions are recognized as expenses over the vesting period, using the graded vesting method, net of estimated forfeitures.

The binomial option-pricing model is used to measure the value of share options. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rates and expected dividends. The fair value of these awards was determined taking into account these factors.

The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and application of management judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period. Moreover, the estimates of fair value of the awards are not intended to predict actual future events or the value that ultimately will be realized by grantees who receive share-based awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company for accounting purposes.

(z) Taxation

Current income taxes are recorded in accordance with the regulations of the relevant tax jurisdiction. The Group accounts for income taxes under the asset and liability method in accordance with ASC 740, *Income Tax*. Under this method, deferred tax assets and liabilities are recognized for the tax consequences attributable to differences between carrying amounts of existing assets and liabilities in the financial statements and their respective tax basis, and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of comprehensive loss in the period of change. Valuation allowances are established when necessary to reduce the amount of deferred tax assets if it is considered more likely than not that amount of the deferred tax assets will not be realized.

The Group records liabilities related to uncertain tax positions when, despite the Group's belief that the Group's tax return positions are supportable, the Group believes that it is more likely than not that those positions may not be fully sustained upon review by tax authorities. Accrued interest and penalties related to unrecognized tax benefits are classified as income tax expense. The Group did not recognize uncertain tax positions as of December 31, 2018, 2019, 2020, and March 31, 2021.

(aa) Discontinued operations

Discontinued operations are reported when a component of the Group comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group is classified as held for disposal or has been disposed of, if the disposal of the component (1) represents a strategic shift and (2) have a major impact on the Group's financial results. In the consolidated statements of comprehensive loss, results from discontinued operations is reported separately from the income and expenses from continuing operations and prior periods are presented on a comparative basis. Cash flows for discontinuing operations are presented separately in the consolidated statements of cash flow and Note 22. In order to present the financial effects of the continuing operations and discontinued operations, revenues and expenses arising from intra-group transactions are eliminated except for those revenues and expenses that are considered to continue after the disposal of the discontinued operations.

(ab) Leases

The Group accounts for leases in accordance with ASC 842, *Leases* ("ASC 842"), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The Group adopted ASC 842 on January 1, 2018, along with all subsequent ASU clarifications and improvements that are applicable to

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

the Group, to each lease that existed in the periods presented in the financial statements, using the modified retrospective transition method and used the commencement date of the leases as the date of initial application. Consequently, financial information and the disclosures required under ASC 842 are provided for dates and periods presented in the financial statements. The Company elected not to apply the recognition requirements of ASC 842 to short-term leases. The Company also elected not to separate non-lease components from lease components, therefore, it will account for lease component and the non-lease components as a single lease component when there is only one vendor in the lease contract. The adoption of ASC 842 resulted in recognition of right of use ("ROU") assets of RMB158,770, current operating lease liabilities of RMB14,575 and non-current operating lease liabilities of RMB142,751 upon the adoption date.

The Group determines if a contract contains a lease based on whether it has the right to obtain substantially all of the economic benefits from the use of an identified asset which the Group does not own and whether it has the right to direct the use of an identified asset in exchange for consideration. ROU assets represent the Group's right to use an underlying asset for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. ROU assets are recognized as the amount of the lease liability, adjusted for lease incentives received. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is the Group's incremental borrowing rate ("IBR"), because the interest rate implicit in most of the Group's leases is not readily determinable. The IBR is a hypothetical rate based on the Group's understanding of what its credit rating would be to borrow and resulting interest the Group would pay to borrow an amount equal to the lease payments in a similar economic environment over the lease term on a collateralized basis. Lease payments may be fixed or variable, however, only fixed payments or in-substance fixed payments are included in the Group's lease liability calculation. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments are incurred.

The land use rights are operating leases with term of about 50 years. Other than the land use rights, the lease terms of operating and finance leases vary from more than a year to 20 years. Operating leases are included in operating lease right of use assets, current and non-current operating lease liabilities on the Group's consolidated balance sheets. Finance leases are included in property, plant and equipment, net, current and non-current finance lease liabilities on the Group's consolidated balance sheets. As of March 31, 2021, all of the Group's ROU assets were generated from leased assets in the PRC.

In a sale and leaseback transaction, one party (the seller-lessee) sells an asset it owns to another party (the buyer-lessor) and simultaneously leases back all or a portion of the same asset for all, or part of, the asset's remaining economic life. The seller-lessee transfers legal ownership of the asset to the buyer-lessor in exchange for consideration, and then makes periodic rental payments to the buyer-lessor to retain the use of the asset. The Company applies requirements in Topic 606 on revenue from contracts with customers when determining whether the transfer of an asset shall be accounted for as a sale of the asset.

An option for the seller-lessee to repurchase the asset would preclude accounting for the transfer of the asset as a sale of the asset unless both of the following criteria are met:

- a The exercise price of the option is the fair value of the asset at the time the option is exercised.
- b There are alternative assets, substantially the same as the transferred asset, readily available in the marketplace.

(ac) Loss per share

Basic net loss per share is computed using the weighted average number of ordinary shares outstanding during the period using the two-class method. Diluted net loss per share is computed using the weighted average number of ordinary shares and potential ordinary shares outstanding during the period. Potential ordinary shares include ordinary shares issuable upon the conversion of the Preferred Shares, using the if-converted method, for periods prior to the completion of the IPO, and ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method. The computation of diluted net loss per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

or a decrease in loss per share amounts) on net loss per share. After the completion of the IPO, net loss per ordinary share is computed on Class A Ordinary Shares and Class B Ordinary Shares on the combined basis, because both classes have the same dividend rights in the Company's undistributed net income.

(ad) Comprehensive loss

Comprehensive loss is defined to include all changes in equity/(deficit) of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Accumulated other comprehensive income, as presented in the consolidated balance sheets, consists of accumulated foreign currency translation adjustments.

(ae) Segment reporting

ASC 280, *Segment Reporting*, establishes standards for companies to report in their financial statements information about operating segments, products, services, geographic areas, and major customers.

Based on the criteria established by ASC 280, the Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole, and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. As the Group's long-lived assets are substantially located in the PRC, no geographical segments are presented.

3 RECENT ACCOUNTING PRONOUNCEMENTS

In August 2020, the FASB issued ASU 2020-06, a new accounting update relating to convertible instruments and contracts in an entity's own equity. For convertible instruments, the accounting update reduces the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models results in fewer embedded conversion features being separately recognized from the host contract as compared with current U.S. GAAP. The accounting update amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. The accounting update also simplifies the diluted earnings per share calculation in certain areas. For public business entities, the update is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Entities are allowed to apply this update on either a full or modified retrospective basis. The Company early adopted this ASU 2020-06 from January 1, 2021. The ASU is currently not expected to have a material impact on the consolidated financial statements.

4 CONCENTRATION AND RISKS**(a) Concentration of credit risk**

Assets that potentially subject the Group to significant concentrations of credit risk primarily consist of cash and cash equivalents, restricted cash, time deposits and short-term investments. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates. As of December 31, 2018, 2019, 2020, and March 31, 2021, most of the Group's cash and cash equivalents, restricted cash and time deposits and short-term investments were held by major financial institutions located in the PRC and Hong Kong which management believes are of high credit quality. The PRC does not have an official deposit insurance program, nor does it have an agency similar to the Federal Deposit Insurance Corporation ("FDIC") in the United States. However, the Group believes that the risk of failure of any of these PRC banks is remote. Bank failure is uncommon in China and the Group believes that those Chinese banks that hold the Group's cash and cash equivalents, restricted cash and time deposits and short-term investments are financially sound based on publicly available information.

(b) Currency convertibility risk

The PRC government imposes controls on the convertibility of RMB into foreign currencies. The Group's cash and cash equivalents, restricted cash and time deposits and short-term investments denominated in RMB that are subject to such government controls amounted to RMB891,257, RMB1,646,275, RMB5,384,769, RMB20,583,974 as of December 31, 2018, 2019, 2020, and March 31, 2021, respectively. The value of RMB is subject to changes in the central government policies and to international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market. In the PRC, certain foreign exchange transactions are required

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through PBOC or other Chinese foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

(c) Foreign currency exchange rate risk

Since July 21, 2005, the RMB has been permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies, and the RMB appreciated more than 15% against the US\$ over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the US\$ remained within a narrow band. Since June 2010, the RMB has fluctuated against the US\$, at times significantly and unpredictably. The appreciation of the RMB against the US\$ was approximately 5.8% in 2017. The depreciation of the RMB against the US\$ was approximately 5.0% and 1.6% in 2018 and 2019, respectively and the appreciation of the RMB against the US\$ was approximately 6.5% in 2020. The depreciation of the RMB against the US\$ was approximately 0.4% for the three months ended March 31, 2021. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

5 ACQUISITION OF CHONGQING ZHIZAO

On December 28, 2018, the Company, through a wholly-owned subsidiary of Beijing CHJ, Chongqing Xinfan Machinery Co., Ltd. (the "Buyer" or "Xinfan"), entered into an acquisition agreement (the "Lifan Acquisition Agreement") with Lifan Industry (Group) Co., Ltd. ("Lifan Industry" or the "Seller") and its two wholly-owned subsidiaries Chongqing Zhizao (the "Target") and Chongqing Lifan Passenger Vehicle Co., Ltd. ("Lifan Passenger Vehicle" or the "Divestiture Recipient"), to acquire 100% equity interest of Chongqing Zhizao (the "Acquisition"). Chongqing Zhizao was formerly known as Chongqing Lifan Automobile Co., Ltd.

Prior to the completion of the Acquisition, Chongqing Zhizao transferred most of its assets and liabilities and the related rights and obligations to Lifan Passenger Vehicle in November 2018 (the "Divestiture"). After the Divestiture, Chongqing Zhizao still retained its Automotive Manufacturing Permission, working capitals and certain lease contracts, and other financial assets or liabilities (hereinafter referred to as "Retained Assets and Liabilities").

Key operating assets including plants, equipment, vehicle design and development technologies and raw materials had been transferred out from Chongqing Zhizao to Lifan Industry or Lifan Passenger Vehicle prior to the Acquisition. All employee contracts, operational systems and processes have also been transferred to Lifan Passenger Vehicle. No system, standard, protocol, convention, or rule that can create or has the ability to contribute to the creation of outputs were obtained by Xinfan. This Acquisition is determined to be an asset acquisition as no sufficient inputs and processes were acquired to produce outputs.

The Acquisition was completed on December 29, 2018 (the "Acquisition Date") when the legal procedures were completed. Total consideration for the Acquisition was RMB650,000 in cash, of which RMB648,000 in the aggregate was settled up to the date of this report.

On December 19, 2019, Xinfan entered into a share transfer agreement (the "Lifan Disposal Agreement") to dispose 100% equity interest of Chongqing Zhizao, with cash consideration of RMB0.001. The Retained Assets and Liabilities of Chongqing Zhizao not related to the manufacturing of Li ONE were transferred out upon the completion of the disposal of Chongqing Zhizao. A disposal loss of RMB4,503 was recognized on December 26, 2019, the disposal date of the transaction.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The following table summarizes the balance of the assets acquired and liabilities assumed as of the date of acquisition and disposed as of the date of disposal, respectively:

| | As of the date of acquisition | As of the date of disposal |
|---|-------------------------------------|----------------------------------|
| | RMB | RMB |
| Cash and cash equivalents and restricted cash | 25,004 | 119 |
| Short-term borrowing ⁽¹⁾ | (20,000) | (18,115) |
| Working capital ⁽²⁾ | (382,350) | (177,231) |
| Finance lease liabilities, current ⁽³⁾ | (66,111) | (76,654) |
| Finance lease liabilities, non-current ⁽³⁾ | (19,547) | — |
| Indemnification Receivables ⁽⁴⁾ | 465,830 | 276,384 |
| Net assets acquired/disposed | 2,826 | 4,503 |
| Intangible assets: | | |
| Automotive Manufacturing Permission ⁽⁵⁾ | 647,174 | — |
| Total | 650,000 | 4,503 |

- (1) Short-term borrowing represents the outstanding bank loan principal, with the amount of RMB20,000 due by February 7, 2019, of which RMB1,885 has been repaid as of December 26, 2019 (Note 14).
- (2) Working capital primarily included prepayments, trade payables, notes payable and accrued liabilities.
- (3) Chongqing Zhizao had existing lease agreements with two third-party lessors for certain manufacturing equipment, which had been accounted for as finance lease. The lease contracts are not transferable before they are completed on January 20, 2020.
- (4) The balance represents the receivables from Lifan Passenger Vehicle intended to indemnify for all the Retained Assets and Liabilities that could not be legally transferred out before the Acquisition.
- (5) As there's no limit to the valid period of the Automotive Manufacturing Permission, the Automotive Manufacturing Permission was classified as an intangible asset with indefinite lives. For the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, no impairment was recognized for the Automotive Manufacturing Permission.

6 TRADE RECEIVABLE

An aging analysis of the trade receivable as of December 31, 2018, 2019, 2020, and March 31, 2021, based on the invoice date and net of provisions, is as follows:

| | As of December 31, | | | As of March 31, |
|-------------------------------|--------------------|--------------|----------------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Within 3 months | — | 8,303 | 10,429 | 7,423 |
| Between 3 months and 6 months | — | — | 18,914 | 3,888 |
| Between 6 months and 1 year | — | — | 77,903 | 65,767 |
| More than 1 year | — | — | 8,303 | 37,378 |
| Total | — | 8,303 | 115,549 | 114,456 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

7 INVENTORIES

Inventories consist of the following:

| | As of December 31, | | | As of March 31, |
|---|--------------------|----------------|------------------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Finished products | — | 144,543 | 820,168 | 1,013,067 |
| Raw materials, work in process and supplies | 155 | 373,543 | 227,836 | 370,673 |
| Total | 155 | 518,086 | 1,048,004 | 1,383,740 |

Raw materials, work in process and supplies as of December 31, 2019, 2020, and March 31, 2021 primarily consist of materials for volume production which will be transferred into production cost when incurred as well as spare parts used for after sales services.

Finished products included vehicles ready for transit at production plants, vehicles in transit to fulfill customers' orders, new vehicles available for immediate sales at the Group's sales and servicing center locations.

8 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following:

| | As of December 31, | | | As of March 31, |
|--|--------------------|----------------|----------------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Deductible VAT input | 317,243 | 495,150 | 196,021 | 233,474 |
| Prepayments to vendors | 32,260 | 217,883 | 104,271 | 166,793 |
| Prepaid rental and deposits | 2,857 | 67,969 | 30,357 | 36,475 |
| Loan receivable from Lifan Holdings ⁽¹⁾ | 490,000 | 8,000 | 8,000 | 8,000 |
| Receivables from Lifan Passenger Vehicle (Note 5) | 465,830 | — | — | — |
| Others | 9,850 | 23,954 | 15,006 | 34,395 |
| Less: Allowance for credit losses | — | — | — | (582) |
| Total | 1,318,040 | 812,956 | 353,655 | 478,555 |

- (1) Loan receivable from Lifan Holdings represents the uncollected loan principal under the loan agreements entered into between Beijing CHJ and Lifan Holdings in 2018 (the "2018 Lifan Loan") and 2019 (the "2019 Lifan Loan"). All the 2018 Lifan Loan has been collected during the first quarter of 2019. In April 2021, the outstanding loan receivable balance of RMB8,000 was settled against the consideration payables for acquisition of Chongqing Zhizao.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

9 PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment and related accumulated depreciation were as follows:

| | As of December 31, | | | As of |
|---|--------------------|------------------|------------------|------------------|
| | 2018 | 2019 | 2020 | March 31, |
| | RMB | RMB | RMB | 2021 |
| Mold and tooling | — | 950,140 | 987,316 | 995,245 |
| Production facilities | 28,362 | 904,239 | 787,970 | 787,877 |
| Buildings | 419,979 | 431,075 | 404,772 | 404,772 |
| Buildings improvements | 113,657 | 307,174 | 311,947 | 297,150 |
| Leasehold improvements | 24,344 | 139,118 | 249,879 | 264,071 |
| Construction in process | 1,064,682 | 110,341 | 53,579 | 197,528 |
| Equipment | 77,224 | 138,102 | 175,887 | 190,394 |
| Motor vehicles | 3,081 | 28,384 | 36,409 | 36,369 |
| Total | 1,731,329 | 3,008,573 | 3,007,759 | 3,173,406 |
| Less: Accumulated depreciation | (83,681) | (195,385) | (498,691) | (595,744) |
| Less: Accumulated impairment loss | — | (18,066) | (30,381) | (30,381) |
| Total property, plant and equipment, net | 1,647,648 | 2,795,122 | 2,478,687 | 2,547,281 |

Construction in process is primarily comprised of production facilities, equipment and mold and tooling related to manufacturing of the vehicles and a portion of Changzhou Production Base construction. For the year ended December 31, 2019, the completed assets are transferred to their respective assets classes, and depreciation begins when an asset is ready for its intended use.

The Group recorded depreciation expenses of RMB55,897, RMB107,173, RMB312,011, RMB53,219 and RMB94,778 for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively.

An impairment of nil, RMB18,066, RMB30,381, nil and nil was recognized for property, plant and equipment for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively. The Group made a full impairment provision on the production facilities and leasehold improvements in connection with the production of electric battery as the Group determined to terminate the design, development and self-production of electric battery via one of the Group's subsidiaries.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

10 INTANGIBLE ASSETS, NET

Intangible assets and related accumulated amortization were as follows:

| | As of December 31, | | | As of |
|--|--------------------|----------------|----------------|----------------|
| | 2018 | 2019 | 2020 | March 31, |
| | RMB | RMB | RMB | 2021 |
| Automotive Manufacturing Permission (<i>Note 5</i>) | 647,174 | 647,174 | 647,174 | 647,174 |
| Indefinite-lived intangible assets, net | 647,174 | 647,174 | 647,174 | 647,174 |
| Software | 28,827 | 39,698 | 58,097 | 61,869 |
| Patents | 694 | 694 | 694 | 694 |
| Definite-lived intangible assets | 29,521 | 40,392 | 58,791 | 62,563 |
| Less: Accumulated amortization | | | | |
| Software | (4,900) | (13,022) | (21,990) | (24,488) |
| Patents | (411) | (677) | (694) | (694) |
| Accumulated amortization | (5,311) | (13,699) | (22,684) | (25,182) |
| Definite-lived intangible assets, net | 24,210 | 26,693 | 36,107 | 37,381 |
| Total intangible assets, net | 671,384 | 673,867 | 683,281 | 684,555 |

The Group recorded amortization expenses of RMB4,599, RMB9,218, RMB8,985, RMB2,135, RMB2,498 for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively.

As of March 31, 2021, amortization expenses related to intangible assets for future periods are estimated to be as follows:

| | As of |
|----------------------------|----------------|
| | March 31, 2021 |
| | RMB |
| Year ending March 31, 2022 | 9,349 |
| Year ending March 31, 2023 | 8,528 |
| Year ending March 31, 2024 | 5,664 |
| Year ending March 31, 2025 | 3,372 |
| Thereafter | 10,468 |
| Total | 37,381 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

11 LEASES

Operating leases of the Group mainly include land use rights and leases of offices, retail stores and delivery and servicing centers, while finance lease mainly include leases of production plants.

The components of lease expenses were as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|-------------------------------|---------------------------------|----------------|----------------|--------------------------------------|---------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Lease cost | | | | | |
| Finance lease cost: | | | | | |
| Amortization of assets | 15,501 | 15,501 | 15,346 | 3,875 | 3,637 |
| Interest of lease liabilities | 18,841 | 19,943 | 21,851 | 5,166 | 5,693 |
| Operating lease cost | 22,811 | 86,365 | 176,788 | 25,491 | 59,968 |
| Short-term lease cost | 2,682 | 6,801 | 4,937 | 1,009 | 4,041 |
| Total | 59,835 | 128,610 | 218,922 | 35,541 | 73,339 |

Operating lease cost is recognized as rental expenses in consolidated statements of comprehensive loss.

Short-term lease cost is recognized as rental expenses in consolidated statements of comprehensive loss on a straight-line basis over the lease term.

Supplemental cash flows information related to leases was as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--|---------------------------------|---------|---------|--------------------------------------|--------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | | |
| Operating cash flows | | | | | |
| payment from operating leases | 121,681 | 77,643 | 126,418 | 16,638 | 49,588 |
| Right-of-use assets obtained in exchange for lease liabilities: | | | | | |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 114,322 | 207,902 | 896,804 | 20,569 | 98,151 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Supplemental balance sheet information related to leases was as follows (in thousands, except lease terms and discount rate):

| | As of December 31, | | | As of March 31, |
|---|--------------------|----------------|------------------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Operating Leases | | | | |
| Land use rights, net (<i>i, ii</i>) | 179,117 | 183,383 | 181,505 | 181,787 |
| Operating lease right-of-use assets, net (excluding land use rights) | 186,417 | 326,844 | 1,095,501 | 1,149,926 |
| Total operating lease assets | 365,534 | 510,227 | 1,277,006 | 1,331,713 |
| Operating lease liabilities, current | 41,904 | 177,526 | 210,531 | 244,962 |
| Operating lease liabilities, non- current | 223,316 | 241,109 | 1,025,253 | 1,055,909 |
| Total operating lease liabilities | 265,220 | 418,635 | 1,235,784 | 1,300,871 |
| | | | | |
| | As of December 31, | | | As of March 31, |
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Finance Leases | | | | |
| Property, plant and equipment, at cost (<i>i</i>) | 310,018 | 310,018 | 294,269 | 294,269 |
| Accumulated depreciation | (25,835) | (41,336) | (56,682) | (60,318) |
| Property, plant and equipment, net | 284,183 | 268,682 | 237,587 | 233,951 |
| Finance lease liabilities, current | 66,111 | 360,781 | — | — |
| Finance lease liabilities, non-current | 360,385 | — | 366,883 | 372,576 |
| Total finance leases liabilities | 426,496 | 360,781 | 366,883 | 372,576 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | As of December 31, | | | As of March 31, |
|--|--------------------|----------|----------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| Weighted-average remaining lease term | | | | |
| Land use rights | 49 years | 48 years | 47 years | 47 years |
| Operating leases | 7 years | 5 years | 11 years | 10 years |
| Finance leases | 18 years | 17 years | 16 years | 16 years |
| Weighted-average discount rate | | | | |
| Land use rights | 5.7% | 5.7% | 6.2% | 6.2% |
| Operating leases | 5.8% | 5.7% | 5.8% | 5.8% |
| Finance leases | 5.7% | 5.7% | 6.2% | 6.2% |

Maturities of lease liabilities were as follows:

| | As of December 31, | | | | | |
|--|--------------------|----------------|------------------|----------------|------------------|----------------|
| | 2018 | | 2019 | | 2020 | |
| | Operating leases | Finance leases | Operating leases | Finance leases | Operating leases | Finance leases |
| 2019 | 41,905 | — | — | — | — | — |
| 2020 | 127,958 | 469,523 | 182,584 | 381,891 | — | — |
| 2021 | 34,924 | — | 83,256 | — | 213,064 | 21,070 |
| 2022 | 31,565 | — | 76,420 | — | 274,457 | 392,378 |
| 2023 | 25,632 | — | 61,976 | — | 145,219 | — |
| 2024 | 14,700 | — | 24,840 | — | 104,132 | — |
| 2025 | 7,243 | — | 10,725 | — | 88,748 | — |
| Thereafter | 33,291 | — | 39,794 | — | 882,938 | — |
| Total undiscounted lease payments | 317,218 | 469,523 | 479,595 | 381,891 | 1,708,558 | 413,448 |
| Less: imputed interest | (51,998) | (43,027) | (60,960) | (21,110) | (472,774) | (46,565) |
| Total lease liabilities | 265,220 | 426,496 | 418,635 | 360,781 | 1,235,784 | 366,883 |

| | As of March 31, 2021 | |
|--|----------------------|----------------|
| | Operating leases | Finance leases |
| Year ending March 31, 2022 | 250,241 | 21,070 |
| Year ending March 31, 2023 | 293,797 | 392,378 |
| Year ending March 31, 2024 | 149,575 | — |
| Year ending March 31, 2025 | 104,936 | — |
| Year ending March 31, 2026 | 94,346 | — |
| Thereafter | 877,484 | — |
| Total undiscounted lease payments | 1,770,379 | 413,448 |
| Less: imputed interest | (469,508) | (40,872) |
| Total lease liabilities | 1,300,871 | 372,576 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The Group, through its VIEs and VIE's subsidiaries, entered into a cooperation agreement and supplementary agreements (collectively "Changzhou Cooperation Agreements") in February 2016 and September 2016 for the establishment of the Group's Changzhou Production Base with the Changzhou Wujin District People's Government and an enterprise affiliated with it ("the Developer"). The Company intends to establish the Production Base, which are used to design, develop, manufacture premium electric vehicle in China.

According to the Changzhou Cooperation Agreement, the Developer will be responsible to construct the Changzhou Production Base which consists of manufacturing plants, the underlying land use right, and manufacturing equipment and facilities, etc. in accordance with the Group's requirements.

The Developer obtained the land use right from Changzhou government for both of Phase I and Phase II Land, and the lease term is from September 11, 2018 to March 14, 2067.

(i) Changzhou Production Base—Phase I

The Group entered into a lease contract with the Developer to lease the Phase I Land and Plants from May 1, 2017 to December 31, 2020, and further obtained an option to purchase the Phase I Plant and underlying land use right at the construction cost before the end of lease term.

Given the indefinite life of the land, the lease of the Phase I Land or a purchased land use right can only be classified as an operating lease. As the Company has an option to purchase the Phase I Plants at the cost and the assets are designed for the use of the Company, so the option is reasonably certain to be exercised, and accordingly, the lease of the Phase I Plants was classified as a financing lease. Hence, on the lease commerce date, the right of use assets for the Phase I Land and Plants were recorded with the amount of RMB70,508 and RMB310,018 respectively, being the present value of the lease payment and the exercise price of the purchase option. The initial direct cost, and lease payment made on or before the lease commerce date, and the incentive received prior to the lease commerce date were immaterial.

(ii) Changzhou Production Base—Phase II

In September 2018, the Group and the Developer further entered into lease agreements for the Group to purchase the land use right of Phase II Land from the Developer to use and construct on Phase II Land. The lease term is from September 11, 2018 to March 14, 2067. The purchased land use right of the Phase II Land was also classified as an operating lease, for which total rental in the amount of RMB24,420 has been fully paid upfront in 2018. The right of use assets for the Phase II Land was RMB23,080 exclusive VAT.

The Group then constructed another manufacturing plant (the "Phase II Plants") located on the Phase II Land with the total amount of the construction of RMB102,251. Construction of the Production Phase II was completed on January 1, 2019.

In August 2019, the Group entered into an asset transfer agreement to sell the Production Base-Phase II (including the Phase II Land use right and the Phase II Plants) to the Developer with the total consideration of RMB103,060, including VAT. Immediately after the transfer, the Group enter into a lease agreement with the developer to lease back the Production Base-Phase II for the period starting from September 1, 2019 (the actual lease commencement date is the date of change of ownership) to December 31, 2020, and further obtain an option to repurchase the Phase II Land use right and Plants with the amount of RMB103,060 prior to December 31, 2020.

As the repurchase option is not at the fair value of the assets when the option is exercised, and the assets repurchased are designed for the use of the Company, so no alternative assets that are substantially the same as the transferred assets are readily available in the market, as a result, the transaction did not qualify for the sale accounting, and was accounted for as a financing transaction. As of December 31, 2019, the Group has fully received the sales consideration from the third-party Developer, and recorded as the short-term borrowing in the consolidated balance sheets.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

In June 2020, the Group entered into a series of supplemental agreements with the lessor to extend the purchase option to December 31, 2022, and the purchase price remained the same as the original agreement. In addition, the annual lease payment from 2020 to 2022 are subject to achievement of annual sales volume of the Group. If the Group achieves the pre-determined annual sales volume of electric vehicle, the annual lease payment of that year will be waived (equal to zero) by the lessor. Otherwise, the Group will pay the rental fees as agreed in the modified contract.

As the lessor did not provide the additional manufacturing land or plants to the Group, the modified lease contracts do not result in separate new leases, and the lease classifications remained as an operating lease for Phase I Land and a financing lease for Phase I Plants. Accordingly, the lease liabilities were re-measured based on the modified term and reclassified as long-term liabilities. The discount rate for the modified leases at the re-measurement was updated on the basis of the remaining lease term and lease payments. The lease of Phase II Plants remained classified as a financing transaction. Accordingly, the liabilities were re-measured based on the modified term and reclassified as a long-term borrowing. The discount rate for the modified borrowing at the re-measurement was updated on the basis of the remaining borrowing term and payments.

For the year ended December 31, 2020, the pre-determined annual sales volume was achieved. And the Group considered it was similar to a negative variable lease payment, and therefore should be accounted for as a period item when the contingency was resolved (i.e. annual sales target would be achieved at the end of each year). Accordingly, the liabilities were re-measured base on the waived annual lease payment.

12 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

| | As of December 31, | | | As of March 31, |
|---|---------------------------|----------------|----------------|----------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Prepayments for purchase of property, plant and equipment | 283,112 | 11,754 | 126,006 | 409,652 |
| Long-term deposits | 122,881 | 121,007 | 149,235 | 159,760 |
| Prepayments for purchase of land use rights | 175,582 | 175,582 | — | — |
| Others | 10,228 | 3,590 | 45,943 | 42,206 |
| Less: Allowance for credit losses | — | — | — | (1,160) |
| Total | 591,803 | 311,933 | 321,184 | 610,458 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

13 LONG-TERM INVESTMENTS

The Group's long-term investments on the consolidated balance sheets consisted of the following:

| | Equity method | Equity security with readily determinable fair values | Equity securities without readily determinable fair values | Total |
|--|---------------|--|--|----------------|
| | RMB | RMB | RMB | RMB |
| Balance as of January 1, 2018 | 4,364 | — | 18,150 | 22,514 |
| Additions | 98,000 | — | 115,303 | 213,303 |
| Shares of loss of equity method investees | (35,826) | — | — | (35,826) |
| Changes from investments without readily determinable fair value to readily determinable fair value | — | 100,303 | (100,303) | — |
| Fair value change through earnings | — | (28,780) | — | (28,780) |
| Foreign currency translation | — | 5,930 | — | 5,930 |
| Balance as of December 31, 2018 | 66,538 | 77,453 | 33,150 | 177,141 |
| Additions | 98,000 | — | — | 98,000 |
| Shares of loss of equity method investees | (162,725) | — | — | (162,725) |
| Fair value change through earnings | — | 12,550 | — | 12,550 |
| Changes of interest in the equity method investees | 5,494 | — | — | 5,494 |
| Impairment | — | — | (5,000) | (5,000) |
| Foreign currency translation | — | 721 | — | 721 |
| Balance as of December 31, 2019 | 7,307 | 90,724 | 28,150 | 126,181 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Equity method | Equity security with readily determinable fair values | Equity securities without readily determinable fair values | Total |
|--|---------------|--|--|----------------|
| | RMB | RMB | RMB | RMB |
| Balance as of December 31, 2019 | 7,307 | 90,724 | 28,150 | 126,181 |
| Additions | — | — | 65,000 | 65,000 |
| Shares of loss of equity method investees | (2,520) | — | — | (2,520) |
| Fair value change through earnings | — | (21,975) | — | (21,975) |
| Foreign currency translation | — | (3,833) | — | (3,833) |
| Balance as of December 31, 2020 | 4,787 | 64,916 | 93,150 | 162,853 |
| Shares of loss of equity method investees | (322) | — | — | (322) |
| Fair value change through earnings | — | 12,903 | — | 12,903 |
| Foreign currency translation | — | 634 | — | 634 |
| Balance as of March 31, 2021 | 4,465 | 78,453 | 93,150 | 176,068 |

Equity Method

On September 11, 2018, the Group acquired 49% entity interest in Investee A, which is a joint venture with the other shareholder holding 51% interest established to design, develop and produce BEV equipped with vehicle intelligence and optimized for ride sharing service, with cash consideration of RMB98,000. On January 30, 2019, the Group invested another RMB98,000 into Investee A proportionately with the other investor of Investee A, therefore kept the Group's 49% shareholding percentage unchanged. The Group has significant influence in Investee A and therefore the investment is accounted for using the equity method.

The proportionate share of the net loss of equity method investees are recorded in "Share of loss of equity method investees" in the consolidated statements of comprehensive loss. The share of loss of equity method investees for the year ended December 31, 2019 was mainly attributed to the share of loss of Investee A. During the year ended December 31, 2019, Investee A decided to abandon its business, resulting in significant potential impairment loss of certain assets and the Group's share of net loss exceeding the opening carrying value of the investment in Investee A. Therefore, the Group recognized the share of net loss of Investee A to the extent that the carrying value of the investment in Investee A reduced to zero, which amounted to RMB160,560.

The Group performs impairment of its investment under equity method whenever events or changes in circumstances indicate that the carrying value of the investment may not be fully recoverable. No impairment of equity method investments was recognized for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021.

During each of the year ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, the Group's joint ventures did not incur any income tax expense.

Equity Security with Readily Determinable Fair Values

Equity security with readily determinable fair values are marketable equity security which is publicly traded stocks measured at fair value.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The following table shows the carrying amount and fair value of equity securities with readily determinable fair values:

| Cango Inc. | Cost basis | Unrealized loss | Foreign currency translation | Fair value |
|-------------------------|------------|-----------------|------------------------------|------------|
| | RMB | RMB | RMB | RMB |
| As of December 31, 2018 | 100,303 | (28,780) | 5,930 | 77,453 |
| As of December 31, 2019 | 100,303 | (16,230) | 6,651 | 90,724 |
| As of December 31, 2020 | 100,303 | (38,205) | 2,818 | 64,916 |
| As of March 31, 2021 | 100,303 | (25,302) | 3,452 | 78,453 |

The Company purchased 2,633,644 shares of Series C preferred shares issued by Cango Inc. ("Cango"), with a total cash consideration of US\$15,634 (RMB100,303) in 2018. This investment was initially recorded under the equity securities without readily determinable fair value given Cango was still a privately-held company at that time. In July 2018, Cango completed its listing on the New York Stock Exchange ("Cango IPO") and the Series C preferred shares held by the Company were converted to Class A Ordinary Shares of Cango.

Upon the completion of Cango IPO, the Company reclassified this investment from equity securities without readily determinable fair value to equity securities with readily determinable fair value. These securities are valued using the market approach based on the quoted prices in active markets at the reporting date. The Company classifies the valuation techniques that use these inputs as Level 1 of fair value measurements.

The unrealized loss are recognized in investment income/(loss), net in consolidated statements of comprehensive loss.

Equity Securities without Readily Determinable Fair Values

Equity securities without determinable fair value represent investments in privately held companies with no readily determinable fair value. The Group's investments are not common stock or in substance common stock. Upon adoption of ASU 2016-01 on January 1, 2018, the Group elected measurement alternative and recorded these investments at cost, less impairment, adjusted for subsequent observable price changes.

In the first quarter of 2020, the Group sold the discontinued Low-Speed Small Electric Vehicles ("SEV") battery packs business to an affiliate of the Group with the total consideration of RMB60,000 (Note 22). The Group further invested RMB60,000 in cash in this affiliate, together with other investors. Therefore, the Group's equity interests in this affiliate increased from 12.24% to 19.82% on a fully diluted basis as a result of the additional investment.

Impairment charges of nil, RMB5,000, nil, nil, and nil were recorded in investment income/(loss), net in the consolidated statements of comprehensive loss for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively.

14 SHORT-TERM BORROWINGS AND LONG-TERM BORROWINGS

Short-term and long-term borrowings consist of the following:

| | Maturity date | Principal amount | Interest rate per annum | As of December 31, | | | As of March 31, |
|-------------------------------------|-------------------|------------------|-------------------------|--------------------|----------------|----------|-----------------|
| | | | | 2018 | 2019 | 2020 | 2021 |
| | | RMB | | RMB | RMB | RMB | RMB |
| Secured note payable ⁽¹⁾ | February 11, 2020 | 108,737 | 5.5163% | — | 113,935 | — | — |
| Secured borrowing ⁽²⁾ | December 31, 2020 | 94,550 | 5.7000% | — | 95,022 | — | — |
| Unsecured bank loan ⁽³⁾ | October 7, 2020 | 30,000 | 5.6550% | — | 30,000 | — | — |
| Unsecured bank loan ⁽⁴⁾ | February 7, 2019 | 20,000 | 5.6550% | 20,000 | — | — | — |
| Total | | | | 20,000 | 238,957 | — | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Maturity date | Principal amount | Interest rate per annum | As of December 31, | | | As of March 31, |
|---|-------------------|------------------|-------------------------|--------------------|----------|----------------|-----------------|
| | | | | 2018 | 2019 | 2020 | 2021 |
| | | RMB | | RMB | RMB | RMB | RMB |
| Secured borrowing ⁽²⁾ | December 31, 2022 | 94,550 | 6.1750% | — | — | 98,717 | 99,656 |
| Unsecured corporate loan ⁽⁵⁾ | June 30, 2022 | 401,073 | 6.1750% | — | — | 412,921 | 418,975 |
| Total | | | | — | — | 511,638 | 518,631 |

- (1) In February 2019, Leading Ideal HK pledged a deposit with the amount of US\$18,000 (RMB114,700) and the same maturity date to secure the repayment of the note. The Company repaid the note with the amount of RMB114,700 in February 2020, and the deposit of US\$18,000 (RMB114,700) pledged was released accordingly.
- (2) As the transaction in relation to Changzhou Production Base II did not qualify the sales accounting, the consideration received excluding the related taxes was treated as a secured borrowing and recorded as a short-term borrowing as of December 31, 2019. In June 2020, the Group entered into a series of supplemental agreements with the lessor. Pursuant to the supplemental agreements, the maturity date of the borrowing was extended to December 31, 2022. As a result, the borrowing was recorded as a long-term borrowing as of December 31, 2020 and March 31, 2021.
- (3) On October 12, 2019, Beijing CHJ entered into a loan agreement with commercial bank A, with the amount of RMB30,000, which is repayable within one year. The interest rate for the outstanding borrowing was 5.6550%. The Group repaid the bank loan in the second quarter of 2020.
- (4) The unsecured bank loan was obtained through the acquisition of Chongqing Zhizao. On February 8, 2018, Chongqing Zhizao entered into a RMB20,000 unsecured bank loan agreement with the maturity date of February 7, 2019. As of December 31, 2019, the Group disposed Chongqing Zhizao so as to the outstanding bank loan of RMB18,115 was transferred out (Note 5).
- (5) Pursuant to the supplemental agreements of the convertible loan in June 2020 (Note 17), the conversion right in relation to convert the outstanding principal of the convertible loan into equity interest of Beijing CHJ was waived. In addition, the maturity date of the convertible loan was extended to June 30, 2022. As a result, the convertible loan was extinguished, and a new loan was recorded as a long-term borrowing as of December 31, 2020 and March 31, 2021.

The contractual maturities of the short-term and long-term borrowings were as follows:

| | As of December 31, | | | As of March 31, |
|----------------------|--------------------|----------------|----------------|-----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Within 1 year | 20,000 | 238,957 | — | — |
| Between 1 to 2 years | — | — | 511,638 | 518,631 |
| Total | 20,000 | 238,957 | 511,638 | 518,631 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

15 ACCRUALS AND OTHER CURRENT LIABILITIES

Accruals and other current liabilities consist of the following:

| | As of December 31, | | | As of |
|--|--------------------|----------------|----------------|----------------|
| | 2018 | 2019 | 2020 | March 31, |
| | RMB | RMB | RMB | 2021 |
| Payables for purchase of property, plant and equipment | 346,602 | 403,761 | 118,181 | 154,602 |
| Salaries and benefits payable | 114,734 | 129,657 | 187,972 | 149,089 |
| Payables for acquisition of Chongqing Zhizao (Note 5) | 650,000 | 115,000 | 79,552 | 79,252 |
| Accrued warranty | — | 1,477 | 55,138 | 72,229 |
| Payables for logistics expense | — | 6,094 | 43,571 | 55,285 |
| Tax payable | 6,298 | 3,331 | 50,088 | 34,350 |
| Payables for research and development expenses | 54,461 | 94,222 | 35,032 | 27,127 |
| Foreign exchange forwards and options | — | — | — | 25,538 |
| Deposits from vendors | 12,422 | 18,150 | 9,120 | 15,174 |
| Advance from customers | — | 30,740 | 9,285 | 7,505 |
| Payables for issuance cost | — | 20,929 | — | — |
| Payables to vendors arising from the acquisition of Chongqing Zhizao | 73,794 | — | — | — |
| Other payables | 13,815 | 43,898 | 59,520 | 122,003 |
| Total | 1,272,126 | 867,259 | 647,459 | 742,154 |

16 TRADE AND NOTES PAYABLE

Trade and notes payable consist of the following:

| | As of December 31, | | | As of March 31, |
|---------------------------------|--------------------|----------------|------------------|------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Trade payable for raw materials | 22,390 | 624,666 | 2,991,538 | 3,177,733 |
| Notes payable | 314,717 | — | 168,977 | 1,133,490 |
| Total | 337,107 | 624,666 | 3,160,515 | 4,311,223 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

An aging analysis of the trade payable as at December 31, 2018, 2019, 2020, and March 31, 2021, based on the invoice date, is as follows:

| | As of December 31, | | | As of March 31, |
|-------------------------------|--------------------|----------------|------------------|------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Within 3 months | 46,897 | 597,892 | 3,118,840 | 3,685,920 |
| Between 3 months and 6 months | 144,490 | 14,728 | 18,537 | 585,906 |
| Between 6 months and 1 year | 44,664 | 1,700 | 10,676 | 19,686 |
| More than 1 year | 101,056 | 10,346 | 12,462 | 19,711 |
| Total | 337,107 | 624,666 | 3,160,515 | 4,311,223 |

The trade payable is non-interest-bearing and are normally settled on 30-90 day terms.

17 CONVERTIBLE DEBTS**Convertible Loan**

In November 2017, Beijing CHJ entered into a convertible loan agreement with Changzhou Wunan New Energy Vehicle Investment Co., Ltd ("Wunan") to obtain a convertible loan with aggregated principal amount of RMB600,000 at a simple interest of 8% per annum. RMB450,000 of the principal was received in December 2017, and RMB150,000 was received in January 2018. The principal and accrued interest shall be due and payable by Beijing CHJ on the earlier of (i) 3 years following the issuance date; or (ii) upon the reformation of Beijing CHJ from a limited liability company to a corporate. Pursuant to the convertible loan agreement, Wunan may convert the outstanding principal of the convertible loan into equity interest of Beijing CHJ, which effectively indicates a fixed conversion price equal to the issue price of Series B-1 Preferred Shares, at any time before maturity date. Accrued interests shall be waived upon conversion. The Company evaluated that the convertible loan was measured at amortized cost in their entirety with any difference between the initial carrying value and the repayment amount as interest expenses using the effective interest method over the period from the issuance date to the maturity date. The convertible loan was not separate into debt and equity components.

In June 2020, Beijing CHJ entered into a series of supplemental agreements with Wunan. Pursuant to the supplemental agreements, the maturity date of the convertible loan was extended to June 30, 2022, and the conversion right in relation to convert the outstanding principal of the convertible loan into equity interest of Beijing CHJ was waived by Wunan. In accordance with the supplemental contracts, Wunan also agreed to return the prepayment for purchase of land use right of RMB175,582 and reimburse certain eligible expenditures with the amount of RMB143,838. The return of the prepayment and the reimbursements were used as a settlement of the unpaid interests and part of the outstanding principal of the convertible loan. The outstanding loan principal was reduced to RMB401,073 with a revised interest rate of 6.175% per annum. As a result, the convertible loan was extinguished, and a new loan with the principle amount of RMB401,073, being the difference between the carrying value of the convertible loan and the settlement amount of RMB319,420, was recorded as a long-term borrowing. The balance of the new loan and accrued interest payable was RMB412,921 as of December 31, 2020 and RMB418,975 as of March 31, 2021.

The contractual maturity of convertible loan was as follows:

| | As of December 31, | | | As of March 31, |
|----------------------|--------------------|----------------|----------|-----------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Within 1 year | — | 692,520 | — | — |
| Between 1 to 2 years | 644,602 | — | — | — |
| Total | 644,602 | 692,520 | — | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Convertible Promissory Notes

In January and March 2019, the Company issued convertible promissory notes with the aggregated principal amount of US\$25,000 (RMB168,070) with simple interest of 8% per annum. The principal and accrued interest shall be due and payable by the Company 12 months following the date of issuance. Pursuant to the convertible promissory notes agreements, the entire convertible promissory notes shall be converted into 11,873,086 shares of Series B-3 Preferred Shares of the Company at the issuance price of Series B-3 Preferred Shares upon the closing of the Reorganization. Holders have the right to convert any portion or the entire principal into Series B-3 preferred equity interest of Beijing CHJ, if the Reorganization has not been completed before maturity, or if there occurs any change in control, disposition of all or substantially all of the assets or IPO of Beijing CHJ. Accrued interests shall be waived if the investors elect to exercise the conversion options. The Company evaluated that the convertible promissory notes were measured at amortized cost in their entirety with any difference between the initial carrying value and the repayment amount as interest expenses using the effective interest method over the period from the issuance date to the maturity date. The convertible promissory notes were not separate into debt and equity components.

The convertible promissory notes documents provided that the existing indebtedness of the Company rank *pari passu* with the convertible promissory notes. If any future indebtedness of the Company shall rank senior to this convertible promissory notes, such future indebtedness shall subject to the convertible promissory notes holders' prior written consent.

Before conversion, the holders of the convertible promissory notes are entitled to all rights granted to Series B-3 Preferred Shareholders, such as dividend rights, redemption rights, pre-emptive right, right of first refusal, rights of co-sale, right of anti-dilution, liquidation preference rights. The convertible promissory notes holders were also granted:

- (a) the right to obtain additional shares to be issued in the next round of new financing for free to keep their shareholding percentage (or as converted shareholding percentage for convertible promissory notes holders) unchanged (the "Series B-3 Anti-Dilution Warrant"); and
- (b) the right to acquire additional shares to be issued in the next two rounds of financing at a 15% discount of purchase price, up to the subscription amount equal to the investment amount in their Series B-3 Preferred Shares and convertible promissory notes (the "Series B-3 Additional Warrant").

The Series B-3 Anti-Dilution Warrant and the Series B-3 Additional Warrant issued together with the convertible promissory notes are considered freestanding financial liabilities under ASC 480, and are classified as a liability at their issuance date fair value in accordance with ASC 480-10-55, and are subsequently measured at fair value, with changes in fair value recorded in consolidated statement of comprehensive loss. The initial fair value of the Series B-3 Anti-Dilution Warrant and the Series B-3 Additional Warrant granted to holders of convertible promissory notes were RMB14,161. For details see Note 24.

In the event of a change in control or disposition of all or substantially all of the Company's assets, if so requested by the convertible promissory notes holders, the holders shall enjoy the same liquidation preference rights as Series B-3 Preferred Shareholders as if the conversion has already occurred, the convertible promissory notes shall be deemed as fully repaid after paying such liquidation preference amount.

On July 2, 2019, in conjunction with the Reorganization of the Group, all convertible promissory notes were converted into Series B-3 Preferred Shares. The principal amount of US\$25,000 and accrued interest of US\$1,376 (RMB9,428) less the initial fair value of the Series B-3 Anti-Dilution Warrant and the Series B-3 Additional Warrant granted to holders of convertible promissory notes, were recognized as the initial carrying value of related B-3 Preferred Shares.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

18 REVENUE DISAGGREGATION

Revenues by source consist of the following:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--------------------------|---------------------------------|----------------|------------------|--------------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Vehicle sales | — | 280,967 | 9,282,703 | 841,058 | 3,463,673 |
| Other sales and services | — | 3,400 | 173,906 | 10,617 | 111,528 |
| Total | — | 284,367 | 9,456,609 | 851,675 | 3,575,201 |

Revenue by timing of recognition is analysed as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---------------------------------------|---------------------------------|----------------|------------------|--------------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Revenue recognized at a point in time | — | 284,195 | 9,436,095 | 850,195 | 3,559,806 |
| Revenue recognized over time | — | 172 | 20,514 | 1,480 | 15,395 |
| Total | — | 284,367 | 9,456,609 | 851,675 | 3,575,201 |

Revenues arising from vehicle sales are recognized at a point in time when the control of the products are transferred to the users. Included in revenues from other sales and services are (i) revenue arising from sales of charging stalls and certain services under the Li Plus Membership which are recognized at a point in time when the control of the products and services are transferred to the users; and (ii) revenue arising from vehicle internet connection services, FOTA upgrades and certain services under the Li Plus Membership are recognized over time throughout the service period.

19 DEFERRED REVENUE

The following table shows a reconciliation in the current reporting period related to carried-forward deferred revenue.

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|---------------------------------|---------------|----------------|--------------------------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Deferred revenue – at beginning of the year/period | — | — | 62,638 | 62,638 | 407,168 |
| Additions | — | 338,702 | 9,687,382 | 870,160 | 3,638,853 |
| Recognition | — | (276,064) | (9,342,852) | (828,028) | (3,612,336) |
| Deferred revenue – at end of the year/period | — | 62,638 | 407,168 | 104,770 | 433,685 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | For the year ended December 31, | | | For the three months ended March 31, | |
|-------------------------------|---------------------------------|--------|---------|--------------------------------------|---------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | <i>(Unaudited)</i> | |
| Including: | | | | | |
| Deferred revenue, current | — | 56,695 | 271,510 | 91,169 | 235,131 |
| Deferred revenue, non-current | — | 5,943 | 135,658 | 13,601 | 198,554 |

Deferred revenue are contract liabilities allocated to the performance obligations that are unsatisfied, or partially satisfied.

The Group expects that RMB235,131 of the transaction price allocated to unsatisfied performance obligation as at March 31, 2021 will be recognized as revenue during the period from April 1, 2021 to March 31, 2022. The remaining RMB198,554 will be recognized in April 1, 2022 and thereafter.

20 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of the following:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--|---------------------------------|------------------|------------------|--------------------------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | <i>(Unaudited)</i> | |
| Employee compensation | 311,214 | 461,922 | 580,157 | 113,942 | 319,271 |
| Design and development expenses | 423,721 | 603,332 | 406,216 | 54,689 | 155,364 |
| Depreciation and amortization expenses | 19,461 | 39,648 | 44,977 | 10,444 | 12,221 |
| Rental and related expenses | 11,761 | 14,269 | 18,818 | 3,619 | 9,614 |
| Travel expenses | 12,827 | 21,815 | 9,360 | 1,511 | 3,088 |
| Others | 14,733 | 28,154 | 40,329 | 5,485 | 14,942 |
| Total | 793,717 | 1,169,140 | 1,099,857 | 189,690 | 514,500 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

21 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses consist of the following:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|---------------------------------|----------------|------------------|--------------------------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Employee compensation | 171,948 | 238,368 | 449,109 | 60,850 | 216,592 |
| Marketing and promotional expenses | 35,134 | 176,383 | 264,814 | 3,719 | 161,161 |
| Rental and related expenses | 13,732 | 78,897 | 162,907 | 21,899 | 53,371 |
| Depreciation and amortization expenses | 41,035 | 57,650 | 37,923 | 8,918 | 13,095 |
| Travel expenses | 13,803 | 20,171 | 20,806 | 1,589 | 6,650 |
| Expected credit losses | — | — | — | — | 102 |
| Impairment of property, plant and equipment | — | 18,066 | 30,381 | — | — |
| Others | 61,548 | 99,844 | 152,879 | 15,786 | 58,953 |
| Total | 337,200 | 689,379 | 1,118,819 | 112,761 | 509,924 |

The auditor's remuneration in relation to audit service provided for each of the year ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021 were RMB2,905, RMB3,164, RMB13,818, RMB1,884 and RMB4,450, respectively. The auditor's remuneration in relation to non-audit services for each of the year ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021 were nil, RMB1,153, RMB928, nil and RMB1,084, respectively.

22 DISCONTINUED OPERATIONS

Historically, the Group had a strategy of developing Low-Speed Small Electric Vehicles ("SEV") and producing and selling its related battery packs.

In the first quarter of 2018, the Group determined to dispose the SEV business due to the shift on the Group's business and product strategy. As a result, the long-lived assets related to SEV production, including manufacturing facilities and IP, etc. have ceased to be used, and these assets were considered effectively abandoned. Accordingly, the related assets and liabilities of the SEV business were fully impaired with the impairment amount of RMB292,795 recognized in 2018.

Subsequent to the termination of the SEV business, the Group still sold the SEV battery packs to external customers, and in September 2019, the Group further decided to dispose the SEV battery packs business and located a potential buyer. Accordingly, the Company concluded that as of September 30, 2019, the SEV battery packs business met all of the held for sale criteria. In the first quarter of 2020, the Company completed the sale of the SEV battery packs business to an affiliate of the Company for a total cash consideration of RMB60,000.

The abandonment or the disposal of the SEV business and the related battery packs business represented strategic shifts of the Group and had a major impact on the Group's financial results, and met the criteria for the discontinued operations. Therefore, the historical financial results of the SEV related business were classified as discontinued operation and the related assets and liabilities associated with the discontinued operations of the prior year were reclassified as assets/liabilities held for sale to provide comparable financial information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The following tables set forth the assets, liabilities, results of operations and cash flows of the discontinued operations, which were included in the Historical Financial Information.

| | As of | | |
|--|----------------------|----------------------|----------------|
| | December 31, 2018 | December 31, 2019 | Disposal date |
| | RMB | RMB | RMB |
| Cash and cash equivalents | 331 | 147 | 295 |
| Trade receivable | 4 | 191 | 608 |
| Amount due from related parties | 1,825 | 832 | 832 |
| Inventories | 10,394 | 7,385 | 5,594 |
| Prepayments and other current assets | 8,486 | 9,044 | 9,066 |
| Assets held for sale, current | 21,040 | 17,599 | 16,395 |
| Property, plant and equipment, net | 32,063 | 29,539 | 29,010 |
| Operating lease right-of-use assets, net | 897 | 186 | — |
| Other non-current assets | 130 | 528 | 528 |
| Assets held for sale, non-current | 33,090 | 30,253 | 29,538 |
| Total assets held for sale | 54,130 | 47,852 | 45,933 |
| Trade and notes payable | 1,464 | 423 | 542 |
| Operating lease liabilities, current | 958 | 47 | — |
| Accruals and other current liabilities | 3,956 | 2,392 | 2,754 |
| Total liabilities held for sale | 6,378 | 2,862 | 3,296 |
| For the year ended December 31, | | | |
| | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB |
| Revenues | 8,376 | 9,654 | 870 |
| Cost of sales | (12,264) | (18,981) | (2,437) |
| Gross loss | (3,888) | (9,327) | (1,567) |
| Operating expenses | (70,401) | (11,359) | (1,423) |
| Impairment of long-lived assets | (292,795) | — | — |
| Loss from operations of discontinued operations | (367,084) | (20,686) | (2,990) |
| Others, net | 62 | 24 | — |
| Loss from discontinued operations before income tax expense | (367,022) | (20,662) | (2,990) |
| Income tax expense | — | — | — |
| Net loss from discontinued operations, net of tax | (367,022) | (20,662) | (2,990) |
| Net cash (used in)/provided by discontinued operating activities | (65,925) | (11,395) | 148 |
| Net cash (used in)/provided by discontinued investing activities | (83,963) | (10,565) | 59,705 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The following table presents the gain on disposal of discontinued operations related to the disposal of SEV battery packs business for the year ended December 31, 2020:

| | For the year ended December 31, 2020 |
|--|---|
| Cash consideration received for sale of SEV battery packs business | 60,000 |
| Carrying value of net assets transferred | (42,637) |
| Gain on disposal of discontinued operations | 17,363 |

23 ORDINARY SHARES

In April 2017, the Company was incorporated as a limited liability company in the Cayman Islands. In July 2019, the Company became the holding company of the Group pursuant to the Reorganization described in Note 1. In connection with the Reorganization and issuance of Series C convertible redeemable preferred shares ("Series C Preferred Shares"), 3,830,157,186 authorized shares of the Company were designated as Class A Ordinary Shares, and 240,000,000 authorized shares were designated as Class B Ordinary Shares. Each Class A Ordinary Share is entitled to one vote, and is not convertible into Class B Ordinary Shares under any circumstances. Each Class B Ordinary Share is entitled to ten votes, subject to certain conditions, and is convertible into one Class A Ordinary Share at any time by the holder thereof. Upon the Reorganization, the Company issued ordinary shares and Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 convertible redeemable preferred shares (the "Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 Preferred Shares") to shareholders of Beijing CHJ in exchange for respective equity interests that they held in Beijing CHJ immediately before the Reorganization. Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 Preferred Shares would be converted into Class A Ordinary Shares based on the then-effective conversion price.

On July 4, 2016, Beijing CHJ issued Series Pre-A shares ("Series Pre-A Ordinary Shares") with cash consideration of RMB100,000. Series Pre-A Ordinary Shares were classified as equity as they were not redeemable. In July 2017, upon Series A-2 financing, certain rights were granted to holders of Series Pre-A Ordinary Shares, including contingent redemption rights. Series Pre-A Ordinary Shares were effectively re-designated to Series Pre-A Preferred Shares. Such re-designation was accounted for as a repurchase and cancellation of Series Pre-A Ordinary Shares and a separate issuance of Series Pre-A Preferred Shares. Accordingly, the excess of fair value of the Series Pre-A Preferred Shares over the fair value of the Series Pre-A Ordinary Shares repurchased from employee shareholders was recorded as an employee compensation. While for other non-employee Series Pre-A shareholders, such difference was recognized as a deemed dividend given to these shareholders. The excess of the fair value of all Series Pre-A Ordinary Shares over the carrying value of these shares was accounted for as a retirement of the Series Pre-A Ordinary Shares. The Company elected to charge the excess entirely to accumulated deficits.

In August 2020, the Company completed its IPO and 190,000,000 Class A Ordinary Shares were issued with proceeds of US\$1,042,137, net of underwriter commissions and relevant offering expenses. Concurrently with completion of the IPO, 66,086,955 Class A Ordinary Shares were issued for a consideration of US\$380,000. On August 7, 2020, the Company issued an additional 28,500,000 Class A Ordinary Shares upon the exercise of underwriters' over-allotment option for a consideration of US\$157,320.

All of the Preferred Shares (other than those beneficially owned by Mr. Li Xiang, the founder and the CEO of the Company) were automatically converted to 1,045,789,275 Class A Ordinary Shares immediately upon the completion of the IPO. Concurrently, all Preferred Shares beneficially owned by Mr. Li Xiang were automatically converted to 115,812,080 Class B Ordinary Shares.

In December 2020, the Company completed a follow-on offering of 108,100,000 Class A Ordinary Shares, which included 14,100,000 Class A Ordinary Shares issued in connection with the underwriters' full exercise of their over-allotment option.

In February 2021, the Company issued 34,000,000 Class A Ordinary Shares as treasury shares for future exercise of share options. As of March 31, 2021, 633,012 share options were exercised and the number of the remaining treasury shares was 33,366,988.

As of December 31, 2018, 2019, 2020, and March 31, 2021, the Company had issued and outstanding ordinary shares of 255,000,000, 255,000,000, 1,809,288,310 and 1,809,921,322, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

24 CONVERTIBLE REDEEMABLE PREFERRED SHARES AND WARRANTS

The following table summarizes the issuances of convertible redeemable preferred shares as of March 31, 2021:

| Series | Issuance date | Shares issued | Issue price | Proceeds |
|----------------------|---|---------------|-------------------|---------------|
| | | | per share | from issuance |
| | | | RMB | RMB |
| Pre-A ⁽¹⁾ | July 21, 2017 | 50,000,000 | RMB2.00 | 100,000 |
| A-1 | July 4, 2016 | 129,409,092 | RMB6.03 | 780,000 |
| A-2 | July 21, 2017 | 126,771,562 | RMB7.89 | 1,000,000 |
| A-3 | September 5, 2017 | 65,498,640 | RMB9.47 | 620,000 |
| B-1 | November 28, 2017 | 115,209,526 | RMB13.11 | 1,510,000 |
| B-2 | June 6, 2018 | 55,804,773 | RMB14.16 | 790,000 |
| B-3 ⁽²⁾ | January 7/July 2, 2019 | 119,950,686 | RMB14.16 | 1,701,283 |
| C ⁽³⁾ | July 2/December 2, 2019/January 23, 2020 | 267,198,535 | US\$2.23/US\$1.89 | 3,626,924 |
| D | July 1, 2020 | 231,758,541 | US\$2.64/US\$2.35 | 3,851,034 |

- (1) Upon the issuance of Series A-2 Preferred Shares, Series Pre-A Ordinary Shares were redesignated to Series Pre-A Preferred Shares (see Note 23).
- (2) Including 11,873,086 Series B-3 Preferred Shares converted from the convertible promissory notes issued by the Company in January 2019 (see Note 17). The Series B-3 Preferred Shareholders and convertible promissory notes holders were granted:
- (a) the right to obtain additional shares to be issued in the next round of new financing for free to keep their shareholding percentage (or as converted shareholding percentage for convertible promissory notes holders) unchanged (the "Series B-3 Anti-Dilution Warrant"); and
 - (b) the right to acquire additional shares to be issued in next two rounds of financing at a 15% discount of purchase price, up to the subscription amount equal to the investment amount in their Series B-3 Preferred Shares and convertible promissory notes (the "Series B-3 Additional Warrant").
- (3) Including 78,334,557 shares of Series C Preferred Shares issued upon the exercise of the Series B-3 Additional Warrant by certain Series B-3 Shareholders and all convertible promissory notes holders at a cash exercise price of RMB1,022,045, or RMB13.02 per share. The leading investor of Series C Preferred Shareholders was granted the right to acquire additional shares to be issued in next round of financing at a 15% discount of purchase price, up to the subscription amount equal to the investment amount in Series C Preferred Shares (the "Series C Additional Warrant"). All non-refundable cash considerations for the issuance of Series C Preferred Shares, including 4,109,127 shares registered subsequently on January 3, 2020, were received in full as of December 31, 2019 and accordingly all shares are considered issued and outstanding from accounting perspective.

On January 23, 2020, 18,916,548 shares of Series C Preferred Shares were issued upon the exercise of the Series B-3 Anti-Dilution Warrant.

The Series B-3 Anti-Dilution Warrant, the Series B-3 Additional Warrant and the Series C Additional Warrant (collectively referred as "Warrants") were determined to be freestanding liability instruments and recorded at fair value upon initial recognition. Proceeds received from issuance of Series B-3 Preferred Shares and convertible promissory notes, and Series C Preferred Shares were first allocated to the Warrants based on their initial fair values. The Warrants were marked to the market with the changes recorded in the consolidated statements of comprehensive loss in the applicable subsequent reporting period. The Warrants shall terminate upon the earlier of the consummation of an IPO or the occurrence of a Deemed Liquidation Event. The balance of Warrants was reduced to zero as the Warrants terminated upon the issuance of Series D.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The Series Pre-A, A-1, A-2, A-3, B-1, B-2, B-3, C and D Preferred Shares are collectively referred to as the "Preferred Shares." All series of Preferred Shares have the same par value of US\$0.0001 per share.

The major rights, preferences and privileges of the Preferred Shares are as follows:

Conversion

Preferred Shares of the Company are convertible to Class A Ordinary Shares at any time at the option of the holders, and would automatically be converted into Class A Ordinary Shares 1) upon a Qualified IPO ("QIPO"); or 2) upon the written consent of the holders of a majority of the outstanding Preferred Shares of each class with respect to conversion of each class.

The initial conversion ratio of Preferred Shares to ordinary shares shall be 1:1, and shall be subject to adjustment and readjustment from time to time for share splits and combinations, ordinary share (on an as converted basis) dividends and distributions, reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions, and dilutive issuance.

Redemption

The Company shall redeem, at the option of any holder of outstanding Preferred Shares, all of the outstanding Preferred Shares (other than the unpaid shares) held by the requesting holder, at any time after the earliest to occur of (a) the Company fails to consummate a qualified IPO ("QIPO") by June 30, 2023, or b) any occurrence of a material breach or any material change of the relevant laws or the occurrence of any other factors, which has resulted or is likely to result in the Company's inability to control and consolidate the financial statements of any of the PRC subsidiaries or VIEs, each Preferred Share shall be redeemable at the option of such Preferred Shareholder, out of funds legally available therefor by the Company.

The redemption amount payable for each Preferred Share (other than the unpaid shares) will be an amount equal to 100% of the Preferred Shares' original issue price, plus all accrued but unpaid dividends thereon up to the date of redemption and simple interest on the Preferred Shares' original issue price at the rate of 8% per annum, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations, mergers or similar transactions.

Upon the redemption, Series D Preferred Shares shall rank senior to Series C Preferred Shares, Series C Preferred Shares shall rank senior to Series B-3 Preferred Shares, Series B-3 Preferred Shares shall rank senior to Series B-2 Preferred Shares, Series B-2 Preferred Shares shall rank senior to Series B-1 Preferred Shares, Series B-1 Preferred Shares shall rank senior to Series A-3 Preferred Shares, Series A-3 Preferred Shares shall rank senior to Series A-2 Preferred Shares, Series A-2 Preferred Shares shall rank senior to Series A-1 Preferred Shares, Series A-1 Preferred Shares shall rank senior to Series Pre-A Preferred Shares.

Upon the Reorganization, QIPO definition of Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 Preferred Shares was revised to be the same as Series C Preferred Shares, and all Preferred Shareholders (including Series D issued on July 1, 2020) were given the option to, in the event that the funds of the Company legally available for redemption on the redemption date are insufficient to redeem the total number of redeeming shares required to be redeemed, 1) request the Company to issue a convertible promissory note ("Redemption Note") for the unpaid portion of the redemption price or 2) allow the Company to carry forward and redeem the shares when legally funds are sufficient to do so. Such Redemption Note shall be due and payable no later than 24 months of the redemption date with a simple rate of 8% per annum. Each holder of such Redemption Note shall have the right, at its option, to convert the unpaid principal amount of the Redemption Note and the accrued but unpaid interest thereon, into the same class of Preferred Shares requested to be redeemed at a per share conversion price equal to the applicable original issue price.

Voting Rights

The holders of the Preferred Shares shall have the right to one vote for each ordinary share into which each outstanding Preferred Share held could then be converted. The holders of the Preferred Shares vote together with the Ordinary Shareholders, and not as a separate class or series, on all matters put before the shareholders.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Dividends

Each Preferred Shareholder and Ordinary Shareholder shall be entitled to receive dividends for each share held by such holder, payable out of funds or assets when and as such funds or assets become legally available therefor pari passu with each other on a pro rata basis. Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall be non-cumulative.

No dividends on preferred and ordinary shares have been declared since the issuance date until March 31, 2021.

Liquidation

In the event of any liquidation, the holders of Preferred Shares (except for Series Pre-A Preferred Shares) have preference over holders of Series Pre-A Preferred Shares and ordinary shares with respect to payment of dividends and distribution of assets. Upon Liquidation, Series D Preferred Shares shall rank senior to Series C Preferred Shares, Series C Preferred Shares shall rank senior to Series B-3 Preferred Shares, Series B-3 Preferred Shares shall rank senior to Series B-2 Preferred Shares, Series B-2 Preferred Shares shall rank senior to Series B-1 Preferred Shares, Series B-1 Preferred Shares shall rank senior to Series A-3 Preferred Shares, Series A-3 Preferred Shares shall rank senior to Series A-2 Preferred Shares, Series A-2 Preferred Shares shall rank senior to Series A-1 Preferred Shares, Series A-1 Preferred Shares shall rank senior to Series Pre-A Preferred Shares and ordinary shares.

The holders of Preferred Shares (exclusive of unpaid shares and Series Pre-A Preferred Shares) shall be entitled to receive an amount per share equal to an amount equal to the higher of (1) 100% of the original issue price of such Preferred Shares, plus an aggregate interests calculated at a simple rate of 8% per annum and multiplied by a fraction and (2) the amount receivable by the Preferred Shareholders if all the assets of the Company available for distribution to shareholders is distributed ratably among all the Members on an as-converted basis. If there are still assets of the Company legally available for distribution, such remaining assets of the Company shall be distributed to the holders of issued and outstanding Series Pre-A Preferred Shares and ordinary shares.

Conversion upon IPO

In August 2020, in connection with the completion of IPO, all of the Preferred Shares were automatically converted to 1,045,789,275 Class A Ordinary Shares and 115,812,080 Class B Ordinary Shares based on the aforementioned conversion price.

Accounting for Preferred Shares

The Company classified the Preferred Shares as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option upon the occurrence of certain deemed liquidation events and certain event outside of the Company's control. The Preferred Shares are recorded initially at fair value, net of issuance costs.

The Company recognized accretion to the respective redemption value of the Preferred Shares over the period starting from issuance date to July 4, 2022, the earliest redemption date. The Company recognized accretion of the Preferred Shares amounted to RMB317,320, RMB743,100, RMB651,190, RMB266,365 and nil for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively.

Prior to the Reorganization, the Company has determined that host contract of the Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 Preferred Shares were more akin to an equity host. The conversion feature embedded in the Preferred Shares is considered to meet the definition of derivative in accordance with ASC 815-15-25, due to the optional redemption settlement mechanism upon deemed liquidation could give rise to net settlement of the conversion provision in cash if the per share distribution amount is higher than the fixed redemption amount, instead of the settlement by delivery of the ordinary shares of the Company. This equity-like conversion feature was considered clearly and closely related to the equity host, therefore does not warrant bifurcation. The Company also assessed the redemption features and liquidation feature and determined that these features as a freestanding instrument, would not meet the definition of a derivative, and therefore need not be bifurcated and separately accounted for.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

After the Reorganization, host contract of the Preferred Shares is more akin to a debt host, given the Preferred Shares holders have potential creditors' right in the event of insufficient fund upon redemption, along with other debt-like features in the terms of the Preferred Shares, including the redemption rights. Company considered extinguishment accounting should be applied for all Preferred Shares issued prior to the Reorganization from a qualitative perspective, although from quantitative perspective, the changes of these preferred shares' fair value before and after the modification was immaterial. Hence, accumulated deficit was increased by the difference between the fair value of Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 Preferred Shares after modification and the carrying amount of these Preferred Shares immediately before the modification.

The Company also reassessed the conversion feature, redemption feature and liquidation preference of all Preferred Shares after the Reorganization. The equity-like conversion feature is considered not clearly and closely related to the debt host, and therefore was bifurcated and separately accounted for using fair value. For redemption feature, as it would not result in any substantial premium or discount, nor would it accelerate the repayment of the contractual principal amount, it is clearly and closely related to the debt host, and therefore shall not be bifurcated and accounted for separately. The liquidation preference, on the other hand, may result in substantial premium and could accelerate repayment of the principal upon occurrence of contingent redemption events. Hence, the liquidation preference is considered not clearly and closely related to the debt host and should be bifurcated and accounted for separately. The Company determined the fair value of these derivative liabilities and concluded that the fair value of the bifurcated liquidation features was insignificant. The derivative liabilities of conversion features was bifurcated from the preferred shares initially at fair value, and subsequently was marked to market value with the fair value change recognized in the consolidated statements of comprehensive loss in the applicable subsequent reporting period. Upon the consummation of IPO and conversion of preferred shares, the conversion feature of preferred shares were automatically exercised, consequently, the derivative liabilities of conversion features was reduced to zero.

The movement of the Warrants and conversion feature derivative liabilities are summarized below:

| | Warrants liabilities | Derivative liabilities | Total |
|--|-------------------------|---------------------------|------------------|
| | RMB | RMB | RMB |
| Balance as of December 31, 2018 | — | — | — |
| Issuance | 174,846 | 1,066,013 | 1,240,859 |
| Fair value change | 292,305 | 211,859 | 504,164 |
| Exercise | (45,858) | — | (45,858) |
| Expire (*) | (77,739) | — | (77,739) |
| Translation to reporting currency | 8,196 | 19,068 | 27,264 |
| Balance as of December 31, 2019 | 351,750 | 1,296,940 | 1,648,690 |
| Issuance | — | 328,461 | 328,461 |
| Fair value change | (46,812) | (225,515) | (272,327) |
| Exercise | (305,333) | (1,400,670) | (1,706,003) |
| Translation to reporting currency | 395 | 784 | 1,179 |
| Balance as of December 31, 2020 | — | — | — |
| Balance as of December 31, 2019 | 351,750 | 1,296,940 | 1,648,690 |
| Issuance | — | 81,082 | 81,082 |
| Fair value change | (19,618) | (156,665) | (176,283) |
| Exercise | (305,333) | — | (305,333) |
| Translation to reporting currency | 420 | 20,300 | 20,720 |
| Balance as of March 31, 2020 | 27,219 | 1,241,657 | 1,268,876 |

(*) Upon the completion of the issuance of the Series C Preferred Shares in December 2019, the unvested Series B-3 Additional Warrant to acquire additional Series C Preferred Shares at a 15% discount of purchase price expired, as such the fair value of such Series B-3 Additional Warrant reduced to zero accordingly.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The Company's convertible redeemable preferred shares activities for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 are summarized below:

| | Series Pre-A | | Series A-1 | | Series A-2 | | Series A-3 | | Series B-1 | | Series B-2 | | Series B-3 | | Series C | | Series D | | Total | |
|--|------------------|---------|------------------|---------|------------------|-----------|------------------|---------|------------------|-----------|------------------|---------|------------------|--------|------------------|--------|------------------|--------|------------------|-----------|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB |
| Balance as of January 1, 2018 | 50,000,000 | 175,847 | 129,409,092 | 847,530 | 126,771,562 | 1,027,497 | 65,498,640 | 631,803 | 93,464,682 | 1,228,448 | — | — | — | — | — | — | — | — | 465,143,976 | 3,911,125 |
| Proceeds from Series B-1 Preferred Shares | — | — | — | — | — | — | — | — | 21,744,844 | 285,000 | — | — | — | — | — | — | — | — | 21,744,844 | 285,000 |
| Issuance of preferred shares | — | — | — | — | — | — | — | — | — | — | 48,656,111 | 685,594 | — | — | — | — | — | — | 48,656,111 | 685,594 |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | 60,128 | — | 72,319 | — | 44,655 | — | 108,113 | — | 32,105 | — | — | — | — | — | — | — | 317,320 |
| Balance as of December 31, 2018 | 50,000,000 | 175,847 | 129,409,092 | 907,658 | 126,771,562 | 1,099,816 | 65,498,640 | 676,458 | 115,209,526 | 1,621,561 | 48,656,111 | 717,699 | — | — | — | — | — | — | 535,544,931 | 5,199,039 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Series Pre-A | | Series A-1 | | Series A-2 | | Series A-3 | | Series B-1 | | Series B-2 | | Series B-3 | | Series C | | Series D | | Total | |
|---|------------------|----------|------------------|-----------|------------------|-----------|------------------|----------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|--------|------------------|-------------|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB |
| Balance as of December 31, 2018 | 50,000,000 | 175,847 | 129,409,092 | 907,658 | 126,771,562 | 1,099,816 | 65,498,640 | 676,458 | 115,209,526 | 1,621,561 | 48,656,111 | 717,699 | — | — | — | — | — | — | 535,544,931 | 5,199,039 |
| Proceeds from Series B-2 preferred shares | — | — | — | — | — | — | — | — | — | — | 7,148,662 | 101,200 | — | — | — | — | — | — | 7,148,662 | 101,200 |
| Conversion of convertible promissory notes into Series B-3 Preferred Shares | — | — | — | — | — | — | — | — | — | — | — | — | 11,873,086 | 166,549 | — | — | — | — | 11,873,086 | 166,549 |
| Issuance of Series B-3 Preferred Shares | — | — | — | — | — | — | — | — | — | — | — | — | 108,077,600 | 1,395,015 | — | — | — | — | 108,077,600 | 1,395,015 |
| Issuance of Series C Preferred Shares | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 248,281,987 | 3,616,801 | — | — | 248,281,987 | 3,616,801 |
| Deemed dividend to/(contribution from) preferred shareholders upon extinguishment | — | 281,638 | — | 284,655 | — | 115,806 | — | (15,139) | — | (310,359) | — | (130,312) | — | (8,927) | — | — | — | — | — | 217,362 |
| Bifurcation of conversion feature | — | (14,549) | — | (254,121) | — | (212,055) | — | (92,256) | — | (105,702) | — | (47,231) | — | (108,190) | — | (231,909) | — | — | — | (1,066,013) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | 60,249 | — | 90,077 | — | 61,299 | — | 164,540 | — | 80,891 | — | 133,798 | — | 152,246 | — | — | — | 743,100 |
| Effect of exchange rate changes on preferred shares | — | (8,050) | — | (17,492) | — | (18,685) | — | (10,592) | — | (22,433) | — | (11,944) | — | (27,165) | — | (1,030) | — | — | — | (117,391) |
| Balance as of December 31, 2019 | 50,000,000 | 434,886 | 129,409,092 | 980,949 | 126,771,562 | 1,074,959 | 65,498,640 | 619,770 | 115,209,526 | 1,347,607 | 55,804,773 | 710,303 | 119,950,686 | 1,551,080 | 248,281,987 | 3,536,108 | — | — | 910,926,266 | 10,255,662 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Series Pre-A | | Series A-1 | | Series A-2 | | Series A-3 | | Series B-1 | | Series B-2 | | Series B-3 | | Series C | | Series D | | Total | |
|--|------------------|-----------|------------------|-------------|------------------|-------------|------------------|-----------|------------------|-------------|------------------|-----------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|--------------|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB |
| Balance as of December 31, 2019 | 50,000,000 | 434,886 | 129,409,092 | 980,349 | 126,771,562 | 1,074,959 | 65,498,640 | 619,770 | 115,209,526 | 1,347,607 | 55,804,773 | 710,303 | 119,950,686 | 1,551,080 | 246,281,987 | 3,556,108 | — | — | 910,926,266 | 10,255,662 |
| Exercise of Series B-3 Anti-Dilution Warrant | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 18,916,548 | 305,333 | — | — | 18,916,548 | 305,333 |
| Bifurcation of conversion feature | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | (81,082) | — | — | — | (81,082) |
| Issuance of preferred shares-Series D | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 231,758,541 | 3,603,655 | 231,758,541 | 3,603,655 |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | 34,229 | — | 63,363 | — | 46,738 | — | 136,567 | — | 64,859 | — | 80,635 | — | 178,007 | — | 46,792 | — | 651,190 |
| Effect of exchange rate changes on preferred shares | — | (858) | — | (1,746) | — | (1,770) | — | (964) | — | (1,899) | — | (1,040) | — | (2,613) | — | 28 | — | — | — | (10,862) |
| Conversion of preferred shares to ordinary shares | (50,000,000) | (434,028) | (129,409,092) | (1,013,432) | (126,771,562) | (1,136,552) | (65,498,640) | (665,544) | (115,209,526) | (1,482,275) | (55,804,773) | (774,122) | (119,950,686) | (1,629,102) | (267,198,535) | (3,938,394) | (231,758,541) | (3,650,447) | (1,161,601,355) | (14,723,896) |
| Balance as of December 31, 2020 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Series Pre-A | | Series A-1 | | Series A-2 | | Series A-3 | | Series B-1 | | Series B-2 | | Series B-3 | | Series C | | Series D | | Total | |
|--|------------------|---------|------------------|----------|------------------|-----------|------------------|----------|------------------|-----------|------------------|----------|------------------|-----------|------------------|-----------|------------------|--------|------------------|------------|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB | | RMB |
| Balance as of December 31, 2019 | 50,000,000 | 434,886 | 129,409,092 | 980,149 | 126,771,562 | 1,074,959 | 65,498,640 | 619,770 | 115,209,526 | 1,347,607 | 55,804,773 | 710,303 | 119,959,686 | 1,551,080 | 248,281,987 | 3,556,108 | — | — | 910,926,266 | 10,255,662 |
| Exercise of Series B-3 Anti-Dilution Warrant | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 18,916,548 | 305,333 | — | — | 18,916,548 | 305,333 |
| Bifurcation of conversion feature | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | (81,082) | — | — | — | (81,082) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | 14,788 | — | 27,811 | — | 20,630 | — | 60,587 | — | 28,709 | — | 35,169 | — | 78,671 | — | — | — | 266,365 |
| Effect of exchange rate changes on preferred shares | — | (6,811) | — | (15,574) | — | (17,233) | — | (10,003) | — | (21,973) | — | (11,535) | — | (24,794) | — | (1,823) | — | — | — | (109,746) |
| Balance as of March 31, 2020 | 50,000,000 | 428,075 | 129,409,092 | 980,163 | 126,771,562 | 1,085,537 | 65,498,640 | 630,397 | 115,209,526 | 1,386,221 | 55,804,773 | 721,477 | 119,959,686 | 1,561,455 | 267,196,535 | 3,837,207 | — | — | 929,842,814 | 10,656,532 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

25 LOSS PER SHARE

Basic loss per share and diluted loss per share have been calculated in accordance with ASC 260 for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021 as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--|---------------------------------|--------------------|------------------|--------------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Numerator: | | | | | |
| Net loss | (1,532,318) | (2,438,536) | (151,657) | (77,113) | (359,967) |
| Accretion on convertible redeemable preferred shares to redemption value | (317,320) | (743,100) | (651,190) | (266,365) | — |
| Deemed dividend to preferred shareholders upon extinguishment, net | — | (217,362) | — | — | — |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | 117,391 | 10,862 | 109,746 | — |
| Net loss attributable to ordinary shareholders of Li Auto Inc. | (1,849,638) | (3,281,607) | (791,985) | (233,732) | (359,967) |
| Including: Net loss from continuing operations attributable to ordinary shareholders of Li Auto Inc. | (1,482,616) | (3,260,945) | (806,358) | (248,105) | (359,967) |
| Net (loss)/income from discontinued operations attributable to ordinary shareholders of Li Auto Inc. | (367,022) | (20,662) | 14,373 | 14,373 | — |
| Denominator: | | | | | |
| Weighted average ordinary shares outstanding – basic and diluted | 255,000,000 | 255,000,000 | 870,003,278 | 255,000,000 | 1,809,393,256 |
| Basic and diluted net loss per share from continuing operations attributable to ordinary shareholders of Li Auto Inc. | (5.81) | (12.79) | (0.93) | (0.97) | (0.20) |
| Basic and diluted net (loss)/income per share from discontinued operations attributable to ordinary shareholders of Li Auto Inc. | (1.44) | (0.08) | 0.02 | 0.06 | — |
| Basic and diluted net loss per share attributable to ordinary shareholders of Li Auto Inc. | (7.25) | (12.87) | (0.91) | (0.91) | (0.20) |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

For the years ended December 31, 2018, 2019, 2020, the Company had ordinary equivalent shares, including preferred shares, options granted and convertible debts. For the three months ended March 31, 2021, the Company had ordinary equivalent shares, i.e. options granted. As the Group incurred loss for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, these ordinary equivalent shares were anti-dilutive and excluded from the calculation of diluted loss per share of the Company. The weighted-average numbers of preferred shares, options granted and convertible debts excluded from the calculation of diluted loss per share of the Company were 518,689,896, 21,658,638 and 45,778,620 for the year ended December 31, 2018, 767,751,031, 30,434,096 and 51,503,724 for the year ended December 31, 2019, 669,666,355, 54,605,925 and 22,639,154 for the year ended December 31, 2020, 925,061,708, 33,636,643 and 45,778,620 for the three months ended March 31, 2020, and nil, 56,789,630 and nil for the three months ended March 31, 2021, respectively.

26 SHARE-BASED COMPENSATION

Compensation expenses recognized for share-based awards granted by the Company were as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--|---------------------------------|----------|----------------|--------------------------------------|----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | <i>(Unaudited)</i> | |
| Cost of sales | — | — | 1,515 | — | 6,209 |
| Research and development expenses | — | — | 60,789 | — | 116,609 |
| Selling, general and administrative expenses | — | — | 80,491 | — | 60,110 |
| Total | — | — | 142,795 | — | 182,928 |

(a) 2019 and 2020 Share Incentive Plan

In July 2019, the Group adopted the 2019 Share Incentive Plan (the “2019 Plan”), which allows the Company to grant options of the Group to its employees, directors and consultants. As of March 31, 2021, the maximum number of Class A Ordinary Shares that may be issued under the 2019 Plan is 141,083,452.

The Group began to grant share options to employees from 2015. In conjunction with the Company's Reorganization in July 2019, the Group transferred share options from Beijing CHJ to the Company according to the 2019 Plan. The share options of the Group under the 2019 Plan have a contractual term of ten years from the grant date. The options granted have both service and performance condition. The options are generally scheduled to be vested over five years, one-fifth of the awards shall be vested upon the end of the calendar year in which the awards were granted. Meanwhile, the options granted are only exercisable upon the occurrence of an IPO by the Group.

These awards have a service condition and a performance condition related to an IPO. For share options granted with performance condition, the share-based compensation expenses are recorded when the performance condition is considered probable. As a result, the cumulative share-based compensation expenses for these options that have satisfied the service condition were recorded upon the completion of the IPO in the third quarter of 2020. The Group recognized the share options of the Company granted to the employees using graded-vesting method over the vesting term of the awards, net of estimated forfeitures.

In July 2020, the Group adopted the 2020 Share Incentive Plan (the “2020 Plan”), which allows the Company to grant options of the Group to its employees, directors and consultants. The 2020 Plan allows the Company to grant share options units up to a maximum of 30,000,000 Shares, subject to automatic annual increase. The Group began to grant share options from 2021 under 2020 Plan. The contractual term is ten years from the grant date and the options granted only have service condition. The options are generally scheduled to be vested over five years, one-fifth of the awards shall be vested upon the end of the calendar year in which the awards were granted.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The following table summarizes activities of the Company's share options under the 2019 Plan for the years ended December 31, 2018, 2019 and 2020:

| | Number of options outstanding | Weighted average exercise price | Weighted average remaining contractual life | Aggregate intrinsic value |
|---|-------------------------------------|---------------------------------------|---|---------------------------------|
| | | US\$ | In Years | US\$ |
| Outstanding as of December 31, 2017 | 45,390,000 | 0.10 | 8.33 | 30,411 |
| Granted | 6,250,000 | 0.10 | | |
| Forfeited | — | — | | |
| Outstanding as of December 31, 2018 | 51,640,000 | 0.10 | 7.57 | 41,312 |
| Granted | 3,430,000 | 0.10 | | |
| Forfeited | (310,000) | 0.10 | | |
| Outstanding as of December 31, 2019 | 54,760,000 | 0.10 | 6.73 | 73,926 |
| Granted | 4,224,000 | 0.10 | | |
| Forfeited | (2,070,000) | 0.10 | | |
| Outstanding as of December 31, 2020 | 56,914,000 | 0.10 | 5.95 | 814,724 |
| Vested, expected to vest and exercise as of December 31, 2018 | — | — | — | — |
| Vested, expected to vest and exercise as of December 31, 2019 | — | — | — | — |
| Vested and expected to vest as of December 31, 2020 | 55,413,520 | 0.10 | 5.90 | 793,245 |
| Exercisable as of December 31, 2020 | 40,410,000 | 0.10 | 5.34 | 578,469 |

The following table summarizes activities of the Company's share options under the 2019 Plan and 2020 Plan for the three months ended March 31, 2020 and 2021:

| | Number of options outstanding | Weighted average exercise price | Weighted average remaining contractual life | Aggregate intrinsic value |
|--|-------------------------------------|---------------------------------------|---|---------------------------------|
| | | US\$ | In Years | US\$ |
| Outstanding as of December 31, 2019 | 54,760,000 | 0.10 | 6.73 | 73,926 |
| Granted | 842,000 | 0.10 | | |
| Forfeited | (850,000) | 0.10 | | |
| Outstanding as of March 31, 2020 | 54,752,000 | 0.10 | 6.51 | 68,440 |
| Outstanding as of December 31, 2020 | 56,914,000 | 0.10 | 5.95 | 814,724 |
| Granted | 19,134,700 | 0.10 | | |
| Exercised | (633,012) | 0.10 | | |
| Forfeited | (771,000) | 0.10 | | |
| Outstanding as of March 31, 2021 | 74,644,688 | 0.10 | 6.70 | 925,594 |
| Vested, expected to vest and exercise as of March 31, 2020 | — | — | — | — |
| Vested and expected to vest as of March 31, 2021 | 71,350,787 | 0.10 | 6.60 | 884,750 |
| Exercisable as of March 31, 2021 | 43,306,988 | 0.10 | 5.17 | 537,007 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the underlying stock at each reporting date.

The weighted-average grant date fair value for options granted under the Company's 2019 Plan and 2020 Plan for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021 was US\$0.75, US\$0.99, US\$1.71, US\$1.36 and US\$14.41, respectively, computed using the binomial option pricing model.

The fair value of each option granted under the Company's 2019 Plan and 2020 Plan for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021 was estimated on the date of each grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

| | For the Year Ended December 31, | | | For the three months ended March 31, | |
|--|---------------------------------|-------------|-------------|--------------------------------------|-------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | <i>(Unaudited)</i> | |
| Exercise price (US\$) | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Fair value of the ordinary shares on the date of option grant (US\$) | 0.77–0.89 | 0.90–1.45 | 1.35–1.90 | 1.45 | 14.42 |
| Risk-free interest rate | 3.69%–3.92% | 1.98%–3.17% | 0.69%–1.92% | 1.92% | 0.93% |
| Expected term (in years) | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Expected dividend yield | 0% | 0% | 0% | 0% | 0% |
| Expected volatility | 50%–51% | 47%–48% | 45%–46% | 45% | 47% |

Risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. The Group has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

As of March 31, 2021, there were US\$242,981 of unrecognized compensation expenses related to the share options granted to the Group's employees, which are expected to be recognized over a weighted-average period of 4.73 years and may be adjusted for future changes in forfeitures.

(b) 2021 Share Incentive Plan

In March 2021, the Group adopted the 2021 Share Incentive Plan (the "2021 Plan"), which granted options to purchase 108,557,400 Class B Ordinary Shares to Mr. Xiang Li, the Company's founder and chief executive officer. The exercise price of the options is US\$14.63 per share, or US\$29.26 per ADS. The date of expiration for this grant is March 8, 2031. The granted options are subject to performance-based vesting conditions. The granted options are divided into six equal tranches, or 18,092,900 each. The first tranche will become vested when the aggregate number of the Group's vehicle deliveries in any 12 consecutive months exceeds 500,000. The second to sixth tranches will become vested when the aggregate number of vehicle deliveries in any 12 consecutive months exceeds 1,000,000, 1,500,000, 2,000,000, 2,500,000 and 3,000,000, respectively. As of March 31, 2021, the Group had not recognized any share-based compensation expenses for options granted, because the Group considers it is not probable that the performance-based vesting conditions will be satisfied as of March 31, 2021.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The following table summarizes activities of the Company's share options under the 2021 Plan for the three months ended March 31, 2021:

| | Number of options outstanding | Weighted average exercise price | Weighted average remaining contractual life | Aggregate intrinsic value |
|-------------------------------------|-------------------------------------|---------------------------------------|---|---------------------------------|
| | | US\$ | In Years | US\$ |
| Outstanding as of December 31, 2020 | — | — | — | — |
| Granted | 108,557,400 | 14.63 | | |
| Outstanding as of March 31, 2021 | 108,557,400 | 14.63 | 9.94 | — |

The weighted-average grant date fair value for options granted under the Company's 2021 Plan for the three months ended March 31, 2021 was US\$4.96, computed using the binomial option pricing model.

The fair value of the option granted under the Company's 2021 Plan was estimated on the date of grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

| | For the three months ended March 31, 2021 |
|--|--|
| Exercise price (US\$) | 14.63 |
| Fair value of the ordinary shares on the date of option grant (US\$) | 10.67 |
| Risk-free interest rate | 1.59% |
| Expected term (in years) | 10.00 |
| Expected dividend yield | 0% |
| Expected volatility | 47% |

Risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. The Group has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

As of March 31, 2021, there were US\$538,445 of unrecognized compensation expenses related to the share options granted under 2021 Plan.

On May 5, 2021, the board of directors of the Company approved to replace the options to purchase 108,557,400 Class B Ordinary Shares of the Company under the Company's 2021 Share Incentive Plan previously granted to Mr. Xiang Li on March 8, 2021 with the same amount of restricted Class B Ordinary Shares (the "Award Shares") under the same plan, all of which will immediately become vested upon grant on May 5, 2021. Mr. Xiang Li has agreed, undertaken, and covenanted not to transfer or dispose of, directly or indirectly, any interest in the Class B Ordinary Shares acquired upon vesting of the Award Shares, which are subject to certain performance conditions substantially similar to the vesting conditions of the options being replaced. In addition to the performance conditions, Mr. Xiang Li is required to pay US\$14.63 per share, which is equal to the exercise price of the options being replaced, to have the relevant tranche of the Award Shares released from the restrictions. Mr. Xiang Li also has agreed, undertaken, and covenanted not to cast any vote or claim any dividend paid on any Award Shares before such number of Award Shares are released from the restrictions. Any Award Shares that are not released from the restrictions by March 8, 2031 are subject to compulsory repurchase by the Company at their par value. Pursuant to a conversion notice submitted by Mr. Xiang Li to the board dated July 26, 2021 and the written resolutions passed by the board on July 27, 2021, all such 108,557,400 Class B Ordinary Shares will be converted to 108,557,400 Class A Ordinary Shares on one-to-one basis with effect immediately upon the Listing.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

27 TAXATION**(a) Value added tax**

The Group is subject to statutory VAT rate of 13% for revenue from sales of vehicles and spare parts in the PRC.

(b) Income taxes***Cayman Islands***

The Company was incorporated in the Cayman Islands and conducts most of its business through its subsidiaries located in Mainland China and Hong Kong. Under the current laws of the Cayman Islands, the Company is not subject to tax on either income or capital gain. Additionally, upon payments of dividends to the shareholders, no Cayman Islands withholding tax will be imposed.

PRC

Beijing CHJ is qualified as a “high and new technology enterprise” under the EIT Law and is eligible for a preferential enterprise income tax rate of 15%. Other Chinese companies are subject to enterprise income tax (“EIT”) at a uniform rate of 25%.

Under the EIT Law enacted by the National People's Congress of PRC on March 16, 2007 and its implementation rules which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign investment enterprise in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the “beneficial owner” and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company was incorporated, does not have a tax treaty with PRC.

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located.” Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC will be considered a resident enterprise for PRC tax purposes. However, due to limited guidance and implementation history of the EIT Law, there is uncertainty as to the application of the EIT Law. Should the Company be treated as a resident enterprise for PRC tax purposes, the Company will be subject to PRC income tax on worldwide income at a uniform tax rate of 25%.

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in R&D activities are entitled to claim 175% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year (‘Super Deduction’). The additional deduction of 75% of qualified research and development expenses can only be claimed directly in the annual EIT filing and subject to the approval from the relevant tax authorities.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiaries of the Group incorporated in Hong Kong are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Composition of income tax (benefit)/expense for the periods presented are as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---------------------------------------|---------------------------------|------|----------|--------------------------------------|--------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Deferred income tax (benefit)/expense | — | — | (22,847) | — | 25,955 |

Reconciliations of the income tax expense computed by applying the PRC statutory income tax rate of 25% to the Group's income tax (benefit)/expense of the years presented are as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--|---------------------------------|-------------|-----------------|--------------------------------------|---------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Loss before income tax expense | (1,165,296) | (2,417,874) | (188,877) | (91,486) | (334,012) |
| Income tax credit computed at PRC statutory income tax rate of 25% | (291,324) | (604,468) | (47,219) | (22,872) | (83,503) |
| Tax effect of tax-exempt entity and preferential tax rate | 97,549 | 230,669 | 30,140 | (9,790) | (207) |
| Tax effect of Super Deduction and others | (139,331) | (121,177) | (144,503) | (33,701) | (25,851) |
| Non-deductible expenses | 109 | 27,031 | 21,511 | 40 | 37,611 |
| Change in valuation allowance | 332,997 | 467,945 | 117,224 | 66,323 | 97,905 |
| Income tax (benefit)/expense | — | — | (22,847) | — | 25,955 |

(c) Deferred tax

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more-likely-than-not realized. This assessment considers, among other matters, the nature, frequency and severity of recent loss and forecasts of future profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying business. The statutory income tax rate of 25% or applicable preferential income tax rates were applied when calculating deferred tax assets.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

The Group's deferred tax assets/(liabilities) consist of the following components:

| | As of December 31, | | | As of |
|---|--------------------|-----------|---------------|----------------|
| | 2018 | 2019 | 2020 | March 31, |
| | RMB | RMB | RMB | 2021 |
| Deferred tax assets | | | | |
| Net operating loss carryforwards | 321,077 | 717,495 | 1,144,397 | 1,177,930 |
| Accrued expenses and others | 7,385 | 12,545 | 66,773 | 88,197 |
| Depreciation and amortization | 5,549 | 26,946 | 16,220 | 17,189 |
| Impairment of long-lived assets and allowance for credit losses | 68,754 | 73,271 | 7,694 | 13,073 |
| Unrealized financing cost | 11,401 | 27,520 | 13,125 | 12,903 |
| Unrealized investment loss | 5,330 | 29,664 | — | — |
| Total deferred tax assets | 419,496 | 887,441 | 1,248,209 | 1,309,292 |
| Less: Valuation allowance | (419,496) | (887,441) | (1,004,665) | (1,102,570) |
| Total deferred tax assets, net of valuation allowance | — | — | 243,544 | 206,722 |
| Deferred tax liabilities | | | | |
| Accelerated tax depreciation | — | — | (215,030) | (207,266) |
| Fair value change of certain investments | — | — | (5,667) | (2,564) |
| Total deferred tax liabilities | — | — | (220,697) | (209,830) |
| Deferred tax assets, net of valuation allowance and deferred tax liabilities | — | — | 22,847 | (3,108) |

A valuation allowance is provided against deferred tax assets when the Group determines that it is more-likely-than-not that the deferred tax assets will not be utilized in the future. Movement of valuation allowance is as follow:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|---------------------------------|----------------|------------------|--------------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | <i>(Unaudited)</i> | |
| Valuation allowance | | | | | |
| Balance at beginning of the year/period | 86,499 | 419,496 | 887,441 | 887,441 | 1,004,665 |
| Additions | 332,997 | 467,945 | 148,458 | 66,323 | 100,032 |
| Reversal | — | — | (31,234) | — | (2,127) |
| Balance at ending of the year/period | 419,496 | 887,441 | 1,004,665 | 953,764 | 1,102,570 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

For the year ended December 31, 2020, Wheels Technology and Chongqing Lixiang had achieved pre-tax profit, and the Group forecasted these two subsidiaries are likely to continue to achieve pre-tax profit in 2021. As a result, the Group made an assessment and considered that the deferred tax assets for these two subsidiaries are more-likely-than-not to be utilized in the future, and therefore concluded that the previously recognized valuation allowance for these two subsidiaries should be reversed in income statement as an income tax benefit (i.e. a credit of income tax expense). For the three months ended March 31, 2021, some subsidiaries of the Group making profit and utilized the tax loss brought forward from prior years.

As of December 31, 2020 and March 31, 2021, the Group had net operating loss carryforwards of approximately RMB5,841,910 and RMB6,007,010, mainly arose from the Group's certain subsidiaries, VIEs and the VIEs' subsidiaries established in the PRC, which can be carried forward to offset future taxable income and will expire during the period from 2021 to 2031. As of December 31, 2020 and March 31, 2021, deferred tax assets arose from the net operating loss carryforwards amounted to RMB908,888 and RMB976,275 were provided for full valuation allowance, while the remaining RMB235,509 and RMB201,655 were expected to be utilized prior to expiration considering future taxable income for respective entities.

Uncertain Tax Position

The Group did not identify any significant unrecognized tax benefits for each of the periods presented. The Group did not incur any interest related to unrecognized tax benefits, did not recognize any penalties as income tax expense and also does not anticipate any significant change in unrecognized tax benefits within 12 months from March 31, 2021.

28 FAIR VALUE MEASUREMENT**(a) Assets and liabilities measured at fair value on a recurring basis**

Assets and liabilities measured at fair value on a recurring basis include: short-term investments, investment in equity securities with readily determinable fair value, warrants and derivative liabilities, and foreign exchange forwards and options.

The following table sets the major financial instruments measured at fair value, by level within the fair value hierarchy as of December 31, 2018, 2019, 2020, and March 31, 2021.

| | Fair value as of December 31, 2018 | Fair value measurement at reporting date using | | |
|---|---|--|---|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | RMB | RMB | RMB | RMB |
| Assets | | | | |
| Short-term investments | 859,913 | — | 859,913 | — |
| Equity securities with readily determinable fair value | 77,453 | 77,453 | — | — |
| Total assets | 937,366 | 77,453 | 859,913 | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Fair value measurement at reporting date using | | | |
|---|--|--|---|--|
| | Fair value as of December 31, 2019 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | RMB | RMB | RMB | RMB |
| Assets | | | | |
| Short-term investments | 1,814,108 | — | 1,814,108 | — |
| Equity securities with readily determinable fair value | 90,724 | 90,724 | — | — |
| Total assets | 1,904,832 | 90,724 | 1,814,108 | — |
| Liabilities | | | | |
| Warrant liabilities | 351,750 | — | — | 351,750 |
| Derivative liabilities | 1,296,940 | — | — | 1,296,940 |
| Total liabilities | 1,648,690 | — | — | 1,648,690 |

| | Fair value measurement at reporting date using | | | |
|---|--|--|---|--|
| | Fair value as of December 31, 2020 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | RMB | RMB | RMB | RMB |
| Assets | | | | |
| Short-term investments | 18,850,462 | — | 18,850,462 | — |
| Equity securities with readily determinable fair value | 64,916 | 64,916 | — | — |
| Total assets | 18,915,378 | 64,916 | 18,850,462 | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Fair value as of March 31, 2021 | Fair value measurement at reporting date using | | |
|---|--|--|---|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | RMB | RMB | RMB | RMB |
| Assets | | | | |
| Short-term investments | 20,639,107 | — | 20,639,107 | — |
| Equity securities with readily determinable fair value | 78,453 | 78,453 | — | — |
| Foreign exchange options | 8,184 | — | 8,184 | — |
| Total assets | 20,725,744 | 78,453 | 20,647,291 | — |
| Liabilities | | | | |
| Foreign exchange forwards and options | 25,538 | — | 25,538 | — |
| Total liabilities | 25,538 | — | 25,538 | — |

Valuation Techniques

Short-term investments: Short-term investments are investments in financial instruments with variable interest rates and maturity dates within one year. Fair value is estimated based on quoted prices of similar financial products provided by the banks at the end of each period (Level 2). The gain/(loss) are recognized in “investment income/(loss), net” in the consolidated statements of comprehensive loss.

Equity securities with readily determinable fair value: Equity security with readily determinable fair values are marketable equity security which is publicly traded stocks measured at fair value. These securities are valued using the market approach based on the quoted prices in active markets at the reporting date. The Company classifies the valuation techniques that use these inputs as Level 1 of fair value measurements. The gain/(loss) are recognized in “investment income/(loss), net” in the consolidated statements of comprehensive loss.

Warrants and derivative liabilities: as the Group's warrants and derivative liabilities are not traded in an active market with readily observable quoted prices, the Group uses significant unobservable inputs (Level 3) to measure the fair value of these warrants and derivative liabilities at inception and at each subsequent balance sheet date. The Group has not identified a reasonable possibility of change in any of the significant unobservable inputs that could cause the significant difference in the fair value measurement of the Group's warrant liabilities and derivative liabilities.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Significant factors, assumptions and methodologies used in determining the fair value of these warrants and derivative liabilities, include applying the discounted cash flow approach, and such approach involves certain significant estimates which are as follows:

Discount rates

| Date | Discount rate |
|--------------------|----------------------|
| January 7, 2019 | 31% |
| March 31, 2019 | 31% |
| June 30, 2019 | 30% |
| July 2, 2019 | 30% |
| September 30, 2019 | 29% |
| December 31, 2019 | 29% |
| March 31, 2020 | 30% |
| June 30, 2020 | 29% |

The discount rates listed out in the table above were based on the cost of equity, which was calculated using the capital asset pricing model, or CAPM, the most commonly adopted method for estimating the required rate of return for equity. Under CAPM, the cost of equity was determined by considering a number of factors including risk-free rate, systematic risk, equity market premium, size of our company and our ability to achieve forecasted projections.

Comparable companies

In deriving the cost of equity as the discount rates under the income approach, certain publicly traded companies were selected for reference as our guideline companies. The guideline companies were selected based on the following criteria: (i) they design, develop, manufacture and sell new energy vehicles and (ii) their shares are publicly traded in Hong Kong or the United States.

The following summarizes the rollforward of the beginning and ending balance of the Level 3 warrants and derivative liabilities:

| | Total |
|--|------------------|
| | RMB |
| Fair value of Level 3 warrants and derivative liabilities as of December 31, 2018 | — |
| Issuance | 1,240,859 |
| Unrealized fair value change loss | 504,164 |
| Exercise | (45,858) |
| Expire | (77,739) |
| Translation to reporting currency | 27,264 |
| Fair value of Level 3 warrants and derivative liabilities as of December 31, 2019 | 1,648,690 |
| Issuance | 328,461 |
| Unrealized fair value change gain | (272,327) |
| Exercise | (1,706,003) |
| Translation to reporting currency | 1,179 |
| Fair value of Level 3 warrants and derivative liabilities as of December 31, 2020 | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Unrealized fair value change loss/(gain) and expire are recorded "Changes in fair value of warrants and derivative liabilities" in the consolidated statements of comprehensive loss.

Foreign exchange forwards and options are financial products issued by a commercial bank linked to the forward exchange rates. Fair values are provided by the commercial bank using alternative pricing sources and models utilizing market observable inputs, and accordingly the Group classifies the valuation techniques that use these inputs as Level 2.

(b) Assets measured at fair value on a non-recurring basis

Assets measured at fair value on a non-recurring basis include: investments in equity securities without readily determinable fair value, equity method investments, long-lived assets held for use and assets held for sale. For investments in equity securities without readily determinable fair value, no measurement event occurred during the periods presented. Impairment charges of nil, RMB5,000, nil, nil, and nil were recognized for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively. For equity method investments, no impairment loss is recognized for all years and periods presented. The Group recorded RMB292,795 impairment loss of long-lived assets of SEV business, which has been classified as discontinued operations, in the year ended December 31, 2018, and RMB18,066 and RMB30,381, nil and nil impairment loss of property, plant and equipment for the years ended December 31, 2019, 2020, and for the three months ended March 31, 2020 and 2021, respectively.

(c) Assets and liabilities not measured at fair value but fair value disclosure is required

Financial assets and liabilities not measured at fair value include cash equivalent, time deposits, restricted cash, trade receivable, amounts due from related parties, prepayments and other current assets, short-term borrowings, trade and notes payable, amounts due to related parties, accruals and other current liabilities, other non-current assets, other non-current liabilities, long-term borrowings and convertible debts.

The Group values its time deposits held in certain bank accounts using quoted prices for securities with similar characteristics and other observable inputs, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2. The Group classifies the valuation techniques that use the inputs as Level 2 for short-term borrowing as the rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market.

Trade receivable, amounts due from related parties, prepayments and other current assets, trade and notes payable, amounts due to related parties and accruals and other current liabilities are measured at amortized cost, their fair values approximate their carrying values given their short maturities.

Long-term borrowings and convertible debts are measured at amortized cost. Their fair value was estimated by discounting the scheduled cash flows through to estimated maturity using estimated discount rates based on current offering rates of comparable institutions with similar services. The fair value of these long-term borrowing obligations approximate their carrying value as the borrowing rates are similar to the market rates that are currently available to the Group for financing obligations with similar terms and credit risks and represent a level 2 measurement.

29 COMMITMENTS AND CONTINGENCIES**(a) Capital commitments**

The Group's capital commitments primarily relate to commitments on construction and purchase of production facilities, equipment and tooling. Total capital commitments contracted but not yet reflected in the Historical Financial Information as of March 31, 2021 were as follows:

| | Total | Less than one year | 1-3 years | 3-5 years | Over 5 years |
|---------------------|--------------|-------------------------------|------------------|------------------|-------------------------|
| | RMB | RMB | RMB | RMB | RMB |
| Capital commitments | 925,822 | 738,206 | 184,184 | 3,432 | — |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(b) Purchase obligations

The Group's purchase obligations primarily relate to commitments on purchase of raw material. Total purchase obligations contracted but not yet reflected in the Historical Financial Information as of March 31, 2021 were as follows:

| | Total | Less than one year | 1-3 years | 3-5 years | Over 5 years |
|----------------------|--------------|-------------------------------|------------------|------------------|-------------------------|
| | RMB | RMB | RMB | RMB | RMB |
| Purchase obligations | 3,368,019 | 3,368,019 | — | — | — |

(c) Operating lease commitments

The Group had outstanding commitments on non-cancelable operating lease agreements which are expected to commence in April 2021. Operating lease commitments contracted but not yet reflected in the Historical Financial Information as of March 31, 2021 were as follows:

| | Total | Less than one year | 1-3 years | 3-5 years | Over 5 years |
|-----------------------------|--------------|-------------------------------|------------------|------------------|-------------------------|
| | RMB | RMB | RMB | RMB | RMB |
| Operating lease commitments | 41,297 | 7,231 | 20,054 | 10,189 | 3,823 |

(d) Legal proceedings

The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis.

Chongqing Zhizao was subject to ongoing legal proceedings arising from disputes of contracts entered into prior to the Company's acquisition of Chongqing Zhizao in December 2018. Most of these legal proceedings were still at preliminary stages, and the Company was unable to predict the outcome of these cases, or reasonably estimate a range of the possible loss, if any, given the current status of the proceedings. Other than the unpaid contract amount that the Company assumed from Lifan Acquisition and included as the Retained Assets and Liabilities, the Company did not record any accrual for expected loss payments with respect to these cases as of December 26, 2019. In addition to the indemnification of the Retained Assets and Liabilities the Company obtained from Lifan Passenger Vehicle, Lifan Industry also agreed in the Lifan Acquisition Agreement that, it will indemnify any damages and loss arising from disputes of contracts entered into by Chongqing Zhizao prior to the Company's acquisition of Chongqing Zhizao, including but not limited to above legal proceedings.

On December 26, 2019, the Group disposed 100% equity interest of Chongqing Zhizao (Note 5), and the ongoing legal proceedings of Chongqing Zhizao were transferred out.

Other than the above legal proceedings, the Group does not have any material litigation, and has not recorded any material liabilities in this regard as of December 31, 2018, 2019 and 2020.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

30 RELATED PARTY BALANCES AND TRANSACTIONS

The principal related party with which the Group had transactions during the years presented is as follows:

| Name of entity or individual | Relationship with the Company |
|--|--------------------------------------|
| Beijing Yihang Intelligent Technology Co., Ltd. ("Beijing Yihang") | Affiliate |
| Neolix Technologies Co., Ltd. ("Neolix Technologies") | Affiliate |
| Airx (Beijing) Technology Co., Ltd. ("Airx") | Affiliate |

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|--|-------------|-------------|---|-------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Purchase materials from Beijing Yihang | 31 | 6,914 | 58,361 | 8,521 | 20,023 |
| Purchase R&D service from Beijing Yihang | 2,412 | 25,106 | 4,368 | — | — |
| Purchase equipment and installation service from Airx | 3,233 | 1,994 | — | — | — |
| Sales of battery packs and materials to Neolix Technologies | 3,359 | 1,943 | — | — | — |

The Group had the following significant related party balances:

| | As of December 31, | | | As of March 31, |
|--------------------------------------|---------------------------|--------------|---------------|------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Due from Neolix Technologies – trade | 1,825 | 1,510 | 678 | 678 |
| | | | | |
| | As of December 31, | | | As of March 31, |
| | 2018 | 2019 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB |
| Due to Beijing Yihang – trade | 5,141 | 9,243 | 19,183 | 16,112 |
| Due to Airx – trade | 606 | 521 | 23 | 23 |
| Total | 5,747 | 9,764 | 19,206 | 16,135 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

31 RESTRICTED NET ASSETS

The Group's ability to pay dividends is primarily dependent on the Group receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group's subsidiaries, consolidated VIEs and VIEs' subsidiaries incorporated in PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Group's subsidiaries.

In accordance with the PRC Regulations on Enterprises with Foreign Investment, a foreign invested enterprise established in the PRC is required to provide certain statutory reserve funds, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profits as reported in the enterprise's PRC statutory financial statements. A foreign invested enterprise is required to allocate at least 10% of its annual after-tax profits to the general reserve fund until such reserve fund has reached 50% of its registered capital based on the enterprise's PRC statutory financial statements. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserved funds can only be used for specific purposes and are not distributable as cash dividends.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory surplus fund at least 10% of its annual after-tax profits until such statutory surplus fund has reached 50% of its registered capital based on the enterprise's PRC statutory financial statements. A domestic enterprise is also required to provide discretionary surplus fund, at the discretion of the board of directors, from the net profits reported in the enterprise's PRC statutory financial statements. The aforementioned reserve funds can only be used for specific purposes and are not distributable as cash dividends.

As a result of these PRC laws and regulations that require annual appropriations of 10% of net after-tax profits to be set aside prior to payment of dividends as general reserve fund or statutory surplus fund, the Group's PRC subsidiaries, consolidated VIEs and VIEs' subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company.

Amounts restricted include paid-in capital and statutory reserve funds, less accumulate deficit if as determined pursuant to PRC GAAP, totaling approximately RMB5,355,680, RMB8,288,297, RMB7,644,467, and RMB9,196,801 as of December 31, 2018, 2019, 2020, and March 31, 2021, respectively; therefore in accordance with Rules 4-08 (e) (3) of Regulation S-X, the condensed parent company only financial statements as of December 31, 2018, 2019, 2020, and March 31, 2021 and for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021 are disclosed in Note 32.

32 PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The Company performed a test on the restricted net assets of its consolidated subsidiaries and VIEs in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), General Notes to Historical Financial Information and concluded that it was applicable for the Company to disclose the financial information for the Company only.

The subsidiaries did not pay any dividend to the Company for the years presented. The amounts due from subsidiaries were unsecured, interest free and had no repayment term. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements are not the general-purpose financial statements of the reporting entity and should be read in conjunction with the notes to the Historical Financial Information.

The Company did not have significant capital and other commitments, or guarantees as of December 31, 2018, 2019, 2020, and March 31, 2021.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Condensed statements of comprehensive loss

| | For the year ended December 31, | | | | For the three months ended March 31, | | |
|---|---------------------------------|--------------------|--------------------|-------------------|--------------------------------------|------------------|-------------------|
| | 2018 | 2019 | 2020 | 2020 | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ Note 2(e) | RMB (Unaudited) | RMB | US\$ Note 2(e) |
| Operating expenses: | | | | | | | |
| Selling, general and administrative | (14,643) | (5,114) | (9,424) | (1,438) | (1,379) | (2,306) | (352) |
| Total operating expenses | (14,643) | (5,114) | (9,424) | (1,438) | (1,379) | (2,306) | (352) |
| Loss from operations | (14,643) | (5,114) | (9,424) | (1,438) | (1,379) | (2,306) | (352) |
| Other income/(expense) | | | | | | | |
| Interest expense | — | (9,332) | — | — | — | — | — |
| Interest income | 598 | 20,505 | 4,467 | 682 | 3,164 | 1,713 | 261 |
| Investment (loss)/income, net | (28,780) | 14,880 | 106,823 | 16,304 | (35,280) | 128,581 | 19,625 |
| Foreign exchange loss | (2,310) | (1,084) | (5,861) | (895) | — | (122,308) | (18,668) |
| Equity in loss of subsidiaries, VIEs and VIEs' subsidiaries | (1,487,183) | (2,031,371) | (520,093) | (79,382) | (219,901) | (375,250) | (57,275) |
| Change in fair value of warrants and derivative liabilities | — | (426,425) | 272,327 | 41,565 | 176,283 | — | — |
| Others, net | — | (595) | 104 | 16 | — | 9,603 | 1,466 |
| Loss before income tax expense | (1,532,318) | (2,438,536) | (151,657) | (23,148) | (77,113) | (359,967) | (54,943) |
| Income tax expense | — | — | — | — | — | — | — |
| Net loss | (1,532,318) | (2,438,536) | (151,657) | (23,148) | (77,113) | (359,967) | (54,943) |
| Accretion on convertible redeemable preferred shares to redemption value | (317,320) | (743,100) | (651,190) | (99,391) | (266,365) | — | — |
| Deemed dividend to preferred shareholders upon extinguishment, net | — | (217,362) | — | — | — | — | — |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | 117,391 | 10,862 | 1,658 | 109,746 | — | — |
| Net loss attributable to ordinary shareholders of Li Auto Inc. | (1,849,638) | (3,281,607) | (791,985) | (120,881) | (233,732) | (359,967) | (54,943) |
| Net loss | (1,532,318) | (2,438,536) | (151,657) | (23,148) | (77,113) | (359,967) | (54,943) |
| Other comprehensive income/(loss), net of tax | | | | | | | |
| Foreign currency translation adjustment, net of tax | 12,954 | 2,851 | (1,020,728) | (155,794) | (5,088) | 107,644 | 16,430 |
| Total comprehensive loss, net of tax | (1,519,364) | (2,435,685) | (1,172,385) | (178,942) | (82,201) | (252,323) | (38,513) |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Condensed statements of cash flows

| | For the year ended December 31, | | | | For the three months ended March 31, | | |
|---|---------------------------------|--------------------|---------------------|--------------------|--------------------------------------|------------------|-------------------|
| | 2018 | 2019 | 2020 | 2020 | 2020 | 2021 | |
| | RMB | RMB | RMB | US\$ Note 2(e) | RMB (Unaudited) | RMB | US\$ Note 2(e) |
| Cash flows from operating activities | | | | | | | |
| Net cash provided by/(used in) operating activities | 224,318 | 26,492 | 109,961 | 16,783 | (12,891) | 195,338 | 29,814 |
| Cash flows from investing activities | | | | | | | |
| Payments to, and investments in subsidiaries, VIEs and VIEs' subsidiaries | (1,099,424) | (4,384,396) | (10,006,889) | (1,527,350) | (800,551) | (169,238) | (25,831) |
| Purchase of long-term investments | (100,303) | — | — | — | — | — | — |
| Placement of time deposit | — | (1,725,148) | — | — | — | (298,284) | (45,527) |
| Withdraw of time deposit | — | 1,265,877 | 463,527 | 70,748 | 139,581 | — | — |
| Placement of short-term investments | — | (35,157) | (75,367,086) | (11,503,264) | (69,790) | (74,514,990) | (11,373,209) |
| Withdraw of short-term investments | — | — | 60,452,428 | 9,226,843 | 104,685 | 74,120,399 | 11,312,983 |
| Net cash used in investing activities | (1,199,727) | (4,878,824) | (24,458,020) | (3,733,023) | (626,075) | (862,113) | (131,584) |
| Cash flows from financing activities | | | | | | | |
| Proceeds from issuance of convertible redeemable preferred shares, net of issuance costs | 958,658 | 5,254,333 | 3,851,034 | 587,783 | — | — | — |
| Proceeds from issuance of convertible promissory note | — | 168,070 | — | — | — | — | — |
| Proceeds from IPO and concurrent private placements, net of issuance cost | — | — | 11,034,685 | 1,684,222 | — | — | — |
| Proceeds from follow-on offering, net of issuance cost | — | — | 9,990,955 | 1,524,918 | — | — | — |
| Net cash provided by financing activities | 958,658 | 5,422,403 | 24,876,674 | 3,796,923 | — | — | — |
| Effects of exchange rate changes on cash and cash equivalents | 4,716 | 25,595 | (20,248) | (3,091) | 9,874 | (5,927) | (905) |
| Net (decrease)/increase in cash, cash equivalents | (12,035) | 595,666 | 508,367 | 77,592 | (629,092) | (672,702) | (102,675) |
| Cash, cash equivalents at beginning of the year/period | 57,376 | 45,341 | 641,007 | 97,837 | 641,007 | 1,149,374 | 175,429 |
| Cash, cash equivalents at end of the year/period | 45,341 | 641,007 | 1,149,374 | 175,429 | 11,915 | 476,672 | 72,754 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Statements of changes in shareholders' (deficit)/equity

| | Class A Ordinary Shares | | Class B Ordinary Shares | | Additional paid-in capital | Accumulated other comprehensive (loss)/income | Accumulated deficit | Total shareholders' (deficit)/equity |
|--|-------------------------|--------------|-------------------------|------------|----------------------------|---|---------------------|--------------------------------------|
| | Number of shares | Amount | Number of shares | Amount | | | | |
| | | RMB | | RMB | RMB | RMB | RMB | RMB |
| Balance as of January 1, 2018 | 15,000,000 | 10 | 240,000,000 | 155 | 106,080 | (261) | (665,075) | (559,091) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | (106,080) | — | (211,240) | (317,320) |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | 12,954 | — | 12,954 |
| Net loss | — | — | — | — | — | — | (1,532,318) | (1,532,318) |
| Balance as of December 31, 2018 | 15,000,000 | 10 | 240,000,000 | 155 | — | 12,693 | (2,408,633) | (2,395,775) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | — | — | (743,100) | (743,100) |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | — | — | — | — | — | 117,391 | 117,391 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | 2,851 | — | 2,851 |
| Deemed dividend to preferred shareholders upon extinguishment, net | — | — | — | — | — | — | (217,362) | (217,362) |
| Net loss | — | — | — | — | — | — | (2,438,536) | (2,438,536) |
| Balance as of December 31, 2019 | 15,000,000 | 10 | 240,000,000 | 155 | — | 15,544 | (5,690,240) | (5,674,531) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | — | — | (651,190) | (651,190) |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | — | — | — | — | — | 10,862 | 10,862 |
| Share issuance upon IPO and concurrent private placements, net of issuance costs | 284,586,955 | 199 | — | — | 11,023,348 | — | — | 11,023,547 |
| Share issuance upon the conversion and re-designation of preferred shares into Class A and Class B Ordinary Shares | 1,045,789,275 | 730 | 115,812,080 | 80 | 14,723,086 | — | — | 14,723,896 |
| Exercise of conversion features of preferred shares upon the consummation of IPO | — | — | — | — | 1,400,670 | — | — | 1,400,670 |
| Share issuance upon the follow-on offering, net of issuance costs | 108,100,000 | 71 | — | — | 9,999,862 | — | — | 9,999,933 |
| Share-based compensation | — | — | — | — | 142,795 | — | — | 142,795 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | (1,020,728) | — | (1,020,728) |
| Net loss | — | — | — | — | — | — | (151,657) | (151,657) |
| Balance as of December 31, 2020 | 1,453,476,230 | 1,010 | 355,812,080 | 235 | 37,289,761 | (1,005,184) | (6,482,225) | 29,803,597 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

| | Class A Ordinary Shares | | Class B Ordinary Shares | | Additional paid-in capital | Accumulated other comprehensive (loss)/income | Accumulated deficit | Total shareholders' (deficit)/equity |
|--|-------------------------|--------|-------------------------|--------|----------------------------|---|---------------------|--------------------------------------|
| | Number of shares | Amount | Number of shares | Amount | | | | |
| | | RMB | | RMB | RMB | RMB | RMB | RMB |
| Balance as of December 31, 2019 | 15,000,000 | 10 | 240,000,000 | 155 | — | 15,544 | (5,690,240) | (5,674,531) |
| Accretion on convertible redeemable preferred shares to redemption value | — | — | — | — | — | — | (266,365) | (266,365) |
| Effect of exchange rate changes on convertible redeemable preferred shares | — | — | — | — | — | — | 109,746 | 109,746 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | (5,088) | — | (5,088) |
| Net loss | — | — | — | — | — | — | (77,113) | (77,113) |
| Balance as of March 31, 2020 | 15,000,000 | 10 | 240,000,000 | 155 | — | 10,456 | (5,923,972) | (5,913,351) |

| | Class A Ordinary Shares | | Class B Ordinary Shares | | Treasury Shares | | Additional paid-in capital | Accumulated other comprehensive (loss)/income | Accumulated deficit | Total shareholders' (deficit)/equity |
|---|-------------------------|--------|-------------------------|--------|------------------|--------|----------------------------|---|---------------------|--------------------------------------|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | | | | |
| | | RMB | | RMB | | RMB | RMB | RMB | RMB | RMB |
| Balance as of December 31, 2020 | 1,453,476,230 | 1,010 | 355,812,080 | 235 | — | — | 37,289,761 | (1,005,184) | (6,482,225) | 29,803,597 |
| Cumulative effect of adoption of credit loss guidance (Note 2(h)) | — | — | — | — | — | — | — | — | (1,955) | (1,955) |
| Issuance of ordinary shares | 34,000,000 | 22 | — | — | (34,000,000) | (22) | — | — | — | — |
| Exercise of share options | — | — | — | — | 633,012 | — | 413 | — | — | 413 |
| Share-based compensation | — | — | — | — | — | — | 182,928 | — | — | 182,928 |
| Foreign currency translation adjustment, net of tax | — | — | — | — | — | — | — | 107,644 | — | 107,644 |
| Net loss | — | — | — | — | — | — | — | — | (359,967) | (359,967) |
| Balance as of March 31, 2021 | 1,487,476,230 | 1,032 | 355,812,080 | 235 | (33,366,988) | (22) | 37,473,102 | (897,540) | (6,844,147) | 29,732,660 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Basis of presentation

The Company's accounting policies are the same as the Group's accounting policies with the exception of the accounting for the investments in subsidiaries and VIEs.

For the parent company only condensed financial information, the Company records its investments in subsidiaries and VIEs under the equity method of accounting as prescribed in ASC 323, *Investments—Equity Method and Joint Ventures*.

Such investments are presented on the condensed balance sheets as “Investments in subsidiaries, VIEs and VIEs' subsidiaries” and shares in the subsidiaries and VIEs' loss are presented as “Equity in loss of subsidiaries, VIEs and VIEs' subsidiaries” in the condensed statements of comprehensive loss. The parent company only condensed financial information should be read in conjunction with the Historical Financial Information.

33 DIVIDENDS

No dividend was declared by the Company during the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2021.

34 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|---------------------------------|-------|--------|--------------------------------------|--------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB (Unaudited) | RMB |
| Fees | — | — | — | — | — |
| Other emoluments: | | | | | |
| Salaries, allowances and benefits in kind | 4,558 | 4,617 | 4,038 | 1,204 | 1,290 |
| Performance related bonuses | 378 | 400 | 2,320 | 100 | — |
| Share-based compensation expenses (Note 26) | — | — | 57,769 | — | 21,273 |
| Pension scheme contributions | 255 | 532 | 313 | 81 | 96 |
| | 5,191 | 5,549 | 64,440 | 1,385 | 22,659 |
| | 5,191 | 5,549 | 64,440 | 1,385 | 22,659 |

During the Track Record Period, certain directors were granted share options in respect of their services to the Group, under the share option plans of the Company, further details of which are set out in Note 26. The share-based compensation expenses were recognized in the consolidated statements of comprehensive loss during the Track Record Period.

(a) An independent non-executive director and non-executive directors

Zhao Hongqiang served as an independent director of the Company since July 2020 and was re-designated as an independent non-executive director with effect from the Listing Date. Wang Xing was appointed as a non-executive director on July 2, 2019. Fan Zheng was a non-executive director (under the Hong Kong Listing Rules) of the Company and served as an independent director (under applicable U.S. regulations) since October 2020. They did not have any remuneration during the Track Record Period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(b) Executive directors

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|---------------------------------|-------|--------|--------------------------------------|--------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB (Unaudited) | RMB |
| Fees | — | — | — | — | — |
| Other emoluments: | | | | | |
| Salaries, allowances and benefits in kind | 4,558 | 4,617 | 4,038 | 1,204 | 1,290 |
| Performance related bonuses | 378 | 400 | 2,320 | 100 | — |
| Share-based compensation expenses | — | — | 57,769 | — | 21,273 |
| Pension scheme contributions | 255 | 532 | 313 | 81 | 96 |
| | 5,191 | 5,549 | 64,440 | 1,385 | 22,659 |
| | 5,191 | 5,549 | 64,440 | 1,385 | 22,659 |

The remuneration paid to executive directors during the Track Record Period was as follows:

For the year ended December 31, 2018

| | Fees | Salaries, allowances and benefits in kind | Performance related bonuses | Share-based compensation expense | Pension scheme contributions | Total remuneration |
|------------|------|---|-----------------------------|----------------------------------|------------------------------|--------------------|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Li Xiang | — | 1,056 | 88 | — | 91 | 1,235 |
| Shen Yanan | — | 2,365 | 196 | — | 73 | 2,634 |
| Li Tie | — | 1,137 | 94 | — | 91 | 1,322 |
| | — | 4,558 | 378 | — | 255 | 5,191 |

For the year ended December 31, 2019

| | Fees | Salaries, allowances and benefits in kind | Performance related bonuses | Share-based compensation expense | Pension scheme contributions | Total remuneration |
|------------|------|---|-----------------------------|----------------------------------|------------------------------|--------------------|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Li Xiang | — | 1,154 | 100 | — | 301 | 1,555 |
| Shen Yanan | — | 2,308 | 200 | — | 105 | 2,613 |
| Li Tie | — | 1,155 | 100 | — | 126 | 1,381 |
| | — | 4,617 | 400 | — | 532 | 5,549 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

For the year ended December 31, 2020

| | Fees | Salaries, allowances and benefits in kind | Performance related bonuses | Share-based compensation expense | Pension scheme contributions | Total remuneration |
|------------|-------------|--|--|---|---|-------------------------------|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Li Xiang | — | 1,017 | 580 | — | 117 | 1,714 |
| Shen Yanan | — | 2,004 | 1,160 | 33,213 | 117 | 36,494 |
| Li Tie | — | 1,017 | 580 | 24,556 | 79 | 26,232 |
| | — | 4,038 | 2,320 | 57,769 | 313 | 64,440 |

For the three months ended March 31, 2020 (Unaudited)

| | Fees | Salaries, allowances and benefits in kind | Performance related bonuses | Share-based compensation expense | Pension scheme contributions | Total remuneration |
|------------|-------------|--|--|---|---|-------------------------------|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Li Xiang | — | 301 | 25 | — | 28 | 354 |
| Shen Yanan | — | 602 | 50 | — | 28 | 680 |
| Li Tie | — | 301 | 25 | — | 25 | 351 |
| | — | 1,204 | 100 | — | 81 | 1,385 |

For the three months ended March 31, 2021

| | Fees | Salaries, allowances and benefits in kind | Performance related bonuses | Share-based compensation expense | Pension scheme contributions | Total remuneration |
|------------|-------------|--|--|---|---|-------------------------------|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Li Xiang | — | 315 | — | — | 32 | 347 |
| Shen Yanan | — | 616 | — | 21,036 | 32 | 21,684 |
| Li Tie | — | 359 | — | 237 | 32 | 628 |
| | — | 1,290 | — | 21,273 | 96 | 22,659 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

35 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, included the following number of directors and non-directors.

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---------------|---------------------------------|------|------|--------------------------------------|------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Directors | 1 | 1 | 2 | 2 | 1 |
| Non-directors | 4 | 4 | 3 | 3 | 4 |
| | 5 | 5 | 5 | 5 | 5 |

Details of the remuneration for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021, of the five highest paid employees who are non-directors (the “Non-director Individuals”) as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|---|---------------------------------|-------|--------|--------------------------------------|--------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (Unaudited) | |
| Salaries, allowances and benefits in kind | 4,950 | 5,988 | 3,481 | 1,045 | 1,824 |
| Performance related bonuses | 411 | 511 | 2,043 | 87 | 380 |
| Share-based compensation expenses | — | — | 25,487 | — | 26,601 |
| Pension scheme contributions | 349 | 461 | 265 | 69 | 122 |
| | 5,710 | 6,960 | 31,276 | 1,201 | 28,927 |

The number of Non-director Individuals whose remuneration fell within the following bands is as follows:

| | For the year ended December 31, | | | For the three months ended March 31, | |
|----------------------------------|---------------------------------|------|------|--------------------------------------|------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Nil to HK\$500,000 | — | — | — | 3 | — |
| HK\$1,500,001 to HK\$2,000,000 | 4 | 3 | — | — | — |
| HK\$2,000,001 to HK\$2,500,000 | — | 1 | — | — | — |
| HK\$3,500,001 to HK\$4,000,000 | — | — | 1 | — | — |
| HK\$4,000,001 to HK\$4,500,000 | — | — | — | — | 2 |
| HK\$4,500,001 to HK\$5,000,000 | — | — | 1 | — | — |
| HK\$13,000,001 to HK\$13,500,000 | — | — | — | — | 2 |
| HK\$26,500,001 to HK\$27,000,000 | — | — | 1 | — | — |
| | 4 | 4 | 3 | 3 | 4 |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

During the Track Record Period, the Non-director Individuals were granted share options in respect of their services to the Group, under the share option plans of the Company, further details of which are set out in Note 26. The share-based compensation expenses were recognized in the consolidated statements of comprehensive loss during the Track Record Period.

No remuneration was paid by the Group to any directors, the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended December 31, 2018, 2019, 2020, and for the three months ended March 31, 2020 and 2021.

36 SUBSEQUENT EVENTS

In April 2021, the Company completed the offering of US\$862.5 million in aggregate principal amount of its 0.25% convertible senior notes due 2028 and the net proceeds from this offering was approximately US\$844.9 million (RMB5.5 billion). The related interest is payable semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2021.

37 RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Historical Financial Information are prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards ("IFRS"). The effects of material differences between the Historical Financial Information of the Group prepared under U.S. GAAP and IFRS are as follows:

Reconciliation of net loss attributable to ordinary shareholders of Li Auto Inc. in the consolidated statements of comprehensive loss

| | For the year ended December 31, | | | For the three months ended March 31, | |
|--|--|--------------------|---------------------|---|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB | RMB | RMB | RMB | RMB |
| | <i>(Unaudited)</i> | | | | |
| Net loss attributable to ordinary shareholders of Li Auto Inc. as reported under U.S. GAAP | (1,849,638) | (3,281,607) | (791,985) | (233,732) | (359,967) |
| IFRS adjustments | | | | | |
| Preferred Shares (<i>Note (i)</i>) | 330,125 | (1,054,423) | (29,965,125) | (343,126) | — |
| Convertible debts (<i>Note (ii)</i>) | 13,523 | (23,752) | 1,170 | (871) | — |
| Leases (<i>Note (iii)</i>) | (6,127) | (11,239) | (16,911) | (2,483) | (2,700) |
| Investments measured at fair value (<i>Note (iv)</i>) | 6,205 | — | 13,399 | — | (12,198) |
| Share-based compensation (<i>Note (v)</i>) | — | (117,328) | 117,328 | (4,839) | — |
| Issuance costs (<i>Note (vi)</i>) | — | (9,488) | (28,737) | (3,665) | (6,498) |
| Net loss attributable to ordinary shareholders of Li Auto Inc. as reported under IFRS | (1,505,912) | (4,497,837) | (30,670,861) | (588,716) | (381,363) |

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

Reconciliation of total shareholders' (deficit)/equity of the Group in the consolidated balance sheets and total shareholders' (deficit)/equity of the parent company in the parent company only balance sheets

| | As of December 31, | | | As of |
|--|--------------------|--------------------|-------------------|-------------------|
| | 2018 | 2019 | 2020 | March 31, |
| | RMB | RMB | RMB | 2021 |
| Total shareholders' (deficit)/equity as reported under U.S. GAAP | (2,395,775) | (5,674,531) | 29,803,597 | 29,732,660 |
| IFRS adjustments | | | | |
| Preferred Shares (<i>Note (i)</i>) | 297,058 | (750,037) | — | — |
| Convertible debts (<i>Note (ii)</i>) | 13,018 | (10,734) | — | — |
| Leases (<i>Note (iii)</i>) | (10,177) | (21,416) | (38,327) | (41,027) |
| Investments measured at fair value (<i>Note (iv)</i>) | 6,205 | 6,205 | 19,604 | 7,406 |
| Issuance costs (<i>Note (vi)</i>) | — | (9,488) | — | (6,498) |
| Total shareholders' (deficit)/equity as reported under IFRS | (2,089,671) | (6,460,001) | 29,784,874 | 29,692,541 |

Notes:

(i) Preferred Shares

Under U.S. GAAP, SEC guidance provides for mezzanine-equity (temporary equity) category in addition to the financial liability and permanent equity categories. The purpose of this “in-between” category is to indicate that a security may not be a permanent part of equity. The Company classified the Preferred Shares as mezzanine equity in the consolidated balance sheets and are recorded initially at fair value, net of issuance costs. The Company recognized accretion to the respective redemption value of the Preferred Shares over the period starting from issuance date to the earliest redemption date.

Under IFRS, there is no concept of mezzanine or temporary equity classification. The Company designated the Preferred Shares as financial liabilities at fair value through profit or loss which are initially recognized at fair value. Subsequent to initial recognition, the amounts of changes in fair value of the Preferred Shares that were attributed to changes in credit risk of the Preferred Shares were recognized in other comprehensive income, and the remaining amounts of changes in fair value of the Preferred Shares were recognized in the profit or loss.

(ii) Convertible debts

Under U.S. GAAP, the convertible debts were measured at amortized cost, with any difference between the initial carrying value and the repayment amount recognized as interest expenses using the effective interest method over the period from the issuance date to the maturity date.

Under IFRS, the Group's convertible debts were designated as at fair value through profit or loss such that the convertible debts were initially recognized at fair values. Subsequent to initial recognition, the Group considered that the amounts of changes in fair value of the convertible debts that were attributed to changes in credit risk of the convertible debts recognized in other comprehensive income were insignificant. Therefore, the amounts of changes in fair value of the convertible debts were recognized in the profit or loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

(All amounts in thousands, except for share and per share data)

(iii) Leases

Under U.S. GAAP, the amortization of the right-of-use assets and interest expense related to the lease liabilities are recorded together as lease expense to produce a straight-line recognition effect in the income statement.

Under IFRS, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured on the basis that the lease liabilities are measured at amortized cost.

(iv) Investments measured at fair value

Under U.S. GAAP, convertible redeemable preferred shares and ordinary shares with preferential rights issued by privately-held companies without readily determinable fair values could elect an accounting policy choice. The Group elects the measurement alternative to record these equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes.

Under IFRS, these investments were classified as financial assets at fair value through profit or loss and measured at fair value with changes in fair value recognized through profit or loss. Fair value changes of these long-term investments were recognized in the profit or loss.

(v) Share-based compensation

Under U.S. GAAP, awards with performance targets met during the service period upon such as the fulfillment of a qualified successful IPO is a performance vesting condition. The fair value of the awards should not incorporate the probability of the condition vesting, but rather, recognized only when the performance condition is probable to be achieved. The cumulative share-based compensation expenses for the share options that have satisfied the service condition were recorded for the year ended December 31, 2020.

Under IFRS, the cumulative share-based compensation expenses for the share options that have satisfied the service condition up to December 31, 2019 and March 31, 2020, were recorded for the year ended December 31, 2019 and for the three months ended March 31, 2020, respectively when the performance condition in relation to the successful IPO became more likely than not to be achieved.

(vi) Issuance costs

Under U.S. GAAP, specific incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering, shown in equity as a deduction from the proceeds.

Under IFRS, such issuance costs apply a different criteria for capitalization when the listing involves both existing shares and a concurrent issuance of new shares of the Company in the capital market, and were allocated proportionately between the existing and new shares. As a result, the Group recorded issuance costs associated with the listing of existing shares in the profit or loss.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to March 31, 2021 and up to the date of this report. No dividend or distribution has been declared or made by the Company in respect of any period subsequent to March 31, 2021.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules and on the basis set out below is for illustrative purposes only, and is set out herein to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the ordinary shareholders of the Company as of March 31, 2021 as if the Global Offering had taken place on March 31, 2021.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as of March 31, 2021 or at any future dates following the Global Offering.

| | Audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of March 31, 2021 | | Unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of the Company as of March 31, 2021 | | Unaudited pro forma adjusted net tangible assets per Share | Unaudited pro forma adjusted net tangible assets per ADS | Unaudited pro forma adjusted net tangible assets per Share | Unaudited pro forma adjusted net tangible assets per ADS |
|--|---|---------------------|--|-----------------|--|--|--|--|
| | Estimated net proceeds from the Global Offering | | | | | | | |
| | RMB'000 (Note 1) | RMB'000 (Note 2) | RMB'000 | RMB (Note 3) | RMB (Note 4) | HK\$ (Note 5) | HK\$ (Note 5) | |
| Based on the Maximum Offer Price of HK\$150.00 per Share | 29,048,105 | 12,389,708 | 41,437,813 | 21.70 | 43.40 | 25.75 | 51.50 | |

Notes:

- The audited consolidated net tangible assets of the Group attributable to the ordinary shareholders of the Company as of March 31, 2021 is extracted from the Accountant's Report set out in Appendix I to this prospectus, and is based on the audited consolidated net assets of the Group as of March 31, 2021 of RMB29,732,660,000, adjusted for net intangible assets as of March 31, 2021 of RMB684,555,000.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

2. The estimated net proceeds from the Global Offering are based on 100,000,000 Shares and the indicative Offer Price of HK\$150.00 per Offer Share, after deduction of the underwriting commissions and discounts and estimated offering expenses payable by the Company subsequent to March 31, 2021. However, this does not take into account of any allotment and issuance of Shares upon the exercise of the Over-allotment Option, any Shares to be granted under the Share Incentive Plans.
3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,909,921,322 Shares (for the purpose of this unaudited pro forma financial information excluding the 108,557,400 Class A Ordinary Shares issued pursuant to the 2021 Plan and 33,366,988 treasury shares issued in February 2021 to satisfy the future exercise of share options under the 2019 Plan and 2020 Plan) were in issue assuming that the Global Offering had been completed on March 31, 2021. However, this does not take into account of any allotment and issuance of Shares upon the exercise of the Over-allotment Option, any Shares to be granted under the Share Incentive Plans.
4. The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents two Shares.
5. For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.0000 to HK\$1.1866. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to March 31, 2021. In April 2021, the Company issued convertible senior notes in an aggregate principal amount of US\$862.5 million due 2028 with an interest rate of 0.25% per annum. The Group has adopted ASU 2020-06 from January 1, 2021 and as such the Group does not expect to bifurcate the equity component of the notes on the consolidated balance sheet resulting from the option to settle the notes entirely or partially in cash upon conversion. Accordingly, the issuance of convertible senior notes is not expected to have any material impact to the net tangible assets of the Group.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Li Auto Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Li Auto Inc. (the “Company”), its consolidated subsidiaries, its consolidated variable interest entities (“VIEs”) and VIEs’ subsidiaries (together, the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at March 31, 2021, and related notes (the “Unaudited Pro Forma Financial Information”) as set out on pages II-1 to II-2 of the Company’s prospectus dated August 3, 2021, in connection with the proposed public offering of the shares of the Company (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed public offering on the Group’s financial position as at March 31, 2021 as if the proposed public offering had taken place at March 31, 2021. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for the three months ended March 31, 2021, on which an accountant’s report has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7, Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed public offering at March 31, 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors

in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, August 3, 2021

SUMMARY OF THE CONSTITUTION OF THE COMPANY**1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on July 9, 2020 and effective on August 3, 2020 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection.”

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on July 9, 2020 and effective on August 3, 2020 and include provisions to the effect set out below.

Notwithstanding the current provisions of the Articles, the Company undertakes to comply with (a) the applicable articles requirements under Chapter 8A of, and Appendix 3 and Appendix 13 to, the Hong Kong Listing Rules that are not currently met by the Articles and (b) the requirement that where a general meeting is postponed by the directors, the specific date, time and place of the postponed meeting must be specified, before the Articles are formally amended in an extraordinary general meeting to be convened in or before January 2022 such that immediately upon the Listing, the Company will be subject to, and will fully comply with, such articles requirements as if they have already been incorporated into the existing Articles upon the Listing (save for certain specified exceptions). For further details, please see the section headed “Waivers and Exemptions—Requirements Relating to the Articles of Association of the Company.”

2.1 Ordinary Shares

The Company’s ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Ordinary shares are issued in registered form. Shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Upon any direct or indirect sale, transfer, assignment, or disposition of such number of Class B ordinary shares by the holder thereof or the direct or indirect transfer or assignment of the voting power attached to such number of Class B ordinary shares through voting proxy or otherwise to any person that is not an Affiliate of the Founder, such Class B ordinary shares shall be automatically and immediately converted into an equal number of Class A ordinary shares.

2.2 *Dividends*

The holders of ordinary shares are entitled to such dividends as may be declared by the Board of Directors. In addition, shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by the directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or the Company's share premium account, and provided further that a dividend may not be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business.

Dividends received by each Class B ordinary share and Class A ordinary share in any dividend distribution shall be the same.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited by the Board of Directors and, if so forfeited, shall revert to the Company.

2.3 *Voting Rights*

Holders of Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of the shareholders, except as may otherwise be required by law or provided for in the Memorandum and Articles of Association. In respect of matters requiring shareholders' vote, on a show of hands, each shareholder is entitled to one vote and on a poll, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy with a right to attend and vote at such meeting holding not less than ten percent of the votes attaching to the ordinary shares.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Holders of the ordinary shares may, among other things, divide or consolidate their shares by ordinary resolution. A special resolution requires the affirmative vote of no less than two-thirds of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to the Memorandum and Articles of Association. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of the Company, as permitted by the Companies Act and the Memorandum and Articles of Association.

2.4 Transfer of Shares

Any of the shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing and in the usual or common form or any other form approved by the Board of Directors.

However, the Board of Directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which the Company has a lien. The Board of Directors may also decline to register any transfer of any ordinary share unless:

- (a) the instrument of transfer is lodged with the Company, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as the Board of Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped, if required;
- (d) in the case of a transfer to joint holders, the transfer is not to more than four joint holders; or
- (e) a fee of such maximum sum as the Designated Stock Exchange (as defined in the Articles of Association) may determine to be payable, or such lesser sum as the Board of Directors may from time to time require, is paid to the Company in respect thereof.

If the directors refuse to register a transfer they are required, within three months after the date on which the instrument of transfer was lodged with the Company, to send to each of the transferor and the transferee notice of such refusal.

2.5 *Liquidation*

On a winding up of the Company, if the assets available for distribution among the shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among the shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise. If the assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by the shareholders in proportion to the par value of the shares held by them.

2.6 *Redemption, Repurchase and Surrender of Shares*

The Company may issue shares on terms that such shares are subject to redemption, at the option of the Company or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by the Board of Directors or by a special resolution of the shareholders. The Company may also repurchase any of the Company's shares provided that the manner and terms of such purchase have been approved by the Board of Directors or by ordinary resolution of the shareholders, or are otherwise authorized by the Memorandum and Articles of Association. Under the Companies Act, the redemption or repurchase of any share may be paid out of the Company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the Company has commenced liquidation. In addition, the Company may accept the surrender of any fully paid share for no consideration.

2.7 *Variation of Rights of Shares*

The rights attaching to any class of shares may, subject to any rights or restrictions for the time being attached to any class, be materially adversely varied with the consent in writing of the holders of fifty percent of the issued shares of that class, or with the sanction of an ordinary resolution passed at a separate meeting of the holders of the shares of that class.

2.8 *General Meetings of Shareholders*

Shareholders' general meetings may be held in such place within or outside the Cayman Islands as the Board of Directors considers appropriate.

As a Cayman Islands exempted company, the Company is not obliged by the Companies Act to call shareholders' annual general meetings. The Memorandum and Articles of Association provide that we may in each year hold a general meeting as our annual general meeting.

Shareholders' annual general meetings and any other general meetings of the shareholders may be convened by a majority of the Board of Directors or the chairman of the Board of Directors. The Board of Directors shall give not less than seven calendar days' notice of a shareholders' meeting to those persons whose names appear as members in the Company's register of members on the date the notice is given (or on any other date determined by the directors to be the record date for such meeting) and who are entitled to vote at the meeting.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. The Memorandum and Articles of Association allow one or more shareholder holding shares representing in aggregate not less than one-third of the aggregate number of votes attaching to the issued and outstanding shares of the Company entitled to vote at general meetings, to requisition an extraordinary general meeting, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, the Memorandum and Articles of Association do not provide the shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

2.9 Appointment and Removal of Directors

The Articles of Association provide that unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three, the exact number of Directors to be determined from time to time by the Board of Directors.

The Articles of Association provide that (i) for so long as Amp Lee Ltd. (the "**Founder Entity**") and its Affiliates (as defined in the Articles) remain as shareholders of the Company, they shall be entitled to appoint, remove and replace at least one (1) Director(s) (each, a "**Founder Entity Appointed Director**") by delivering a written notice to the Company, and such appointment, removal or replacement as specified therein shall be valid and effective automatically and forthwith upon delivery of such written notice to the Company (without the requirement for any further approval or action on the part of the shareholders of the Company or the Directors); and (ii) for so long as the Founder Entity and its Affiliates (as defined in the Articles) in aggregate hold at least fifty-one percent (51%) of the voting rights represented by the issued and outstanding voting securities in the Company, the Founder Entity and its Affiliates (as defined in the Articles) shall be entitled to appoint a Founder Entity Appointed Director to serve as the Chairman by delivering a written notice to the Company, and such appointment of the Chairman shall be valid and effective automatically and forthwith upon delivery of such written notice to the Company.

The Company may by ordinary resolution appoint any person to be a Director or remove any Director that is not a Founder Entity Appointed Director. In addition, the Board may, by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting, appoint any person as a Director to fill a casual vacancy on the Board arising from the office of any other Director (other than a Founder Entity Appointed Director) being vacated or as an addition to the existing Board. An appointment of a Director may be on terms that the Director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between the Company and the Director, if any; but no such term shall be implied in the absence of express provision. Each Director whose term of office expired shall be eligible for re-election at a meeting of the Shareholders or re-appointment by the Board of Directors.

There is no shareholding qualification for Directors nor is there any specific age limit for Directors.

The office of a Director shall be vacated if the Director:

- (a) becomes bankrupt or makes any arrangement or composition with his creditors;
- (b) dies or is found to be or becomes of unsound mind;
- (c) resigns his office by notice in writing to the Company;
- (d) without special leave of absence from the Board, he is absent from meetings of the Board for three consecutive meetings, and the Board resolves that his office be vacated; or
- (e) is removed from office pursuant to any other provision of the Articles.

2.10 Proceedings of the Board

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be a majority of the then existing Directors.

The Directors may meet together (whether within or outside the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.11 Changes in Share Capital

The Company may by ordinary resolution:

- (a) increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- (b) increase its share capital by new shares of such amount as it thinks expedient;
- (c) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (d) subdivide its existing shares, or any of them, into shares of an amount smaller than that fixed by the Memorandum, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- (e) cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled.

2.12 Directors' Power to Issue Shares

Subject to the provisions, if any, in the Memorandum and Articles of Association and to any direction that may be given by the Company in a general meeting, the Directors may in their absolute discretion and without approval of the shareholders, issue shares, grant rights over existing shares or issue other securities in one or more series as they deem necessary and appropriate and determine designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the shares held by existing shareholders, at such times and on such other terms as they think proper.

2.13 Directors Borrowing Powers

The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock and other such securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

2.14 Disclosure of Interest in Contracts with the Company or any of our Subsidiaries

A Director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with the Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract or transaction which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made or transaction so consummated.

Subject to the rules of the Designated Stock Exchange (as defined in the Articles of Association) and disqualification by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or transaction or proposed contract or transaction shall come before the meeting for consideration.

2.15 Remuneration of Directors

The remuneration of the Directors may be determined by the Directors or by ordinary resolution.

The Directors shall be entitled to be paid their traveling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive such fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.

2.16 Restriction on Ownership of Securities

There are no provisions in the Articles of Association relating to restrictions on ownership of the Company's shares or securities.

2.17 Appointment, removal and remuneration of auditors

The Articles of Association provide that the Directors may appoint an auditor of the Company who shall hold office until removed from office by a resolution of the Directors and may fix his or their remuneration. Upon the shareholders' approval to incorporate the Unmet Articles Requirements in the Company's Articles of Association, the Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**1 Introduction**

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on April 28, 2017 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account.” At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;

- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on April 28, 2017 under the name “CHJ Technologies Inc.” The Company was renamed “Leading Ideal Inc.” on April 16, 2019 and further to “Li Auto Inc.” on July 10, 2020.

Our registered office address is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. Accordingly, our Company’s corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III.

Our registered place of business in Hong Kong is at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 16, 2021 with the Registrar of Companies in Hong Kong. Lau Yee Wa has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

As at the date of this document, our Company’s head office was located at 11 Wenliang Street, Shunyi District, Beijing 101399, China.

2. Changes in share capital of our Company

Our Company was incorporated with an authorized share capital of US\$50,000.00 divided into 5,000,000 ordinary shares of a par value of US\$0.01 each.

The following sets out the changes in the Company’s issued share capital during the two years immediately preceding the date of this document:

- (a) On August 29, 2019, we issued an aggregate of 53,090,909 Series A-1 preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series A-1 preferred shares issued |
|--|---|
| Ningbo Meihuamingshi Investment Partnership (Limited Partnership) | 1,659,091 |
| Shanghai Huashenglingfei Equity Investment Partnership (Limited Partnership) | 16,590,909 |
| Jiaxing Zizhiyihao Equity Investment Partnership (Limited Partnership) | 1,659,091 |
| Xiamen Yuanjia Chuangye Investment Partnership (Limited Partnership) | 33,181,818 |

- (b) On August 29, 2019, we issued an aggregate of 112,826,690 Series A-2 preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series A-2 preferred shares issued |
|--|---|
| Tianjin Lanchixinhe Investment Center (Limited Partnership) | 12,677,156 |
| Shanghai Jingheng Enterprise Management Consulting Partnership (Limited Partnership) | 12,677,156 |
| Ningbo Meishan Bonded Port Area Ximao Equity Investment Partnership (Limited Partnership) | 34,228,322 |
| Ningbo Meishan Bonded Port Area Zhongka Investment Management Partnership (Limited Partnership) | 3,803,147 |
| Hangzhou Shangyijiacheng Investment Management Partnership (Limited Partnership) | 43,102,331 |
| Shanghai Huashenglingfei Equity Investment Partnership (Limited Partnership) | 6,338,578 |

- (c) On August 29, 2019, we issued an aggregate of 32,326,748 Series A-3 preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series A-3 preferred shares issued |
|--|---|
| Tianjin Lanchixinhe Investment Center (Limited Partnership) | 2,112,859 |
| Shanghai Jingheng Enterprise Management Consulting Partnership (Limited Partnership) | 3,169,289 |
| Ningbo Meishan Bonded Port Area Hongzhan Equity Investment Partnership (Limited Partnership) | 4,225,719 |
| Jiaxing Zizhiyihao Equity Investment Partnership (Limited Partnership) | 2,112,859 |
| Xiamen Yuanjia Chuangye Investment Partnership (Limited Partnership) | 2,746,717 |
| Shenzhen Jiayuanqihang Chuangye Investment Enterprise (Limited Partnership) | 10,564,297 |
| Ningbo Meishan Bonded Port Area Zhongka Investment Management Partnership (Limited Partnership) | 7,395,008 |

- (d) On August 29, 2019, we issued an aggregate of 65,997,510 Series B-1 preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series B-1 preferred shares issued |
|---|---|
| Jiaxing Fanhe Investment Partnership (Limited Partnership) | 3,814,885 |
| Tianjin Lanchixinhe Investment Center (Limited Partnership) | 3,051,908 |
| Ningbo Meishan Bonded Port Area Shanxingshiji Equity Investment Partnership (Limited Partnership) | 5,340,839 |
| Hubei Meihuashengshi Equity Investment Partnership (Limited Partnership) | 1,144,465 |
| Xiamen Xinweidachuang Investment Partnership (Limited Partnership) | 30,519,080 |
| Hangzhou Yixing Investment Partnership (Limited Partnership) | 3,814,885 |
| Beijing Qingmiao Zhuang Management Consulting Partnership (Limited Partnership) | 6,103,816 |
| Jiaxing Zizhiyihao Equity Investment Partnership (Limited Partnership) | 762,977 |
| Xiamen Yuanjia Chuangye Investment Partnership (Limited Partnership) | 7,629,770 |
| China TH Capital Limited | 3,814,885 |

- (e) On August 29, 2019, we issued an aggregate of 4,238,338 Series B-2 preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series B-2 preferred shares issued |
|---|---|
| Ningbo Meishan Bonded Port Area Shanxingshiji Equity Investment Partnership (Limited Partnership) | 706,390 |
| Ningbo Meishan Bonded Port Area Hongzhan Equity Investment Partnership (Limited Partnership) | 3,531,948 |

- (f) On August 29, 2019, we issued an aggregate of 32,493,920 Series B-3 preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series B-3 preferred shares issued |
|--|---|
| Xiamen Xinweidachuang Investment Partnership (Limited Partnership) | 14,127,791 |
| Jiaxing Zizhiyihao Equity Investment Partnership (Limited Partnership) | 706,390 |
| Qingdao Cheying Investment Partnership (Limited Partnership) | 3,531,948 |
| Ningbo Tianshi Renhe Equity Investment Partnership, L.P. | 14,127,791 |

- (g) On August 29, 2019, we issued an aggregate of 22,170,330 Series C preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series C preferred shares issued |
|--|--|
| Chemai (Shanghai) Enterprise Management Consulting Partnership (Limited Partnership) | 11,225,461 |
| Xingrui Capital Inc. | 7,680,610 |
| Xiamen Xinweidachuang Investment Partnership (Limited Partnership) | 7,680,610 |

- (h) On September 3, 2019, we issued an aggregate of 21,191,686 Series B-2 preferred shares with a par value of US\$0.0001 each to Beijing Shouxin Jinyuan Management Consulting Center (Limited Partnership) each upon exercise of warrants it held.

- (i) On September 3, 2019, we issued an aggregate of 21,191,686 Series B-3 preferred shares with a par value of US\$0.0001 each to the following shareholders upon exercise of warrants held by each of them:

| Shareholders | Number of Series B-3 preferred shares issued |
|---|--|
| Jilin Shougang Chanye Zhenxing Fund Partnership (Limited Partnership) | 10,595,843 |
| Chengdu Shougang Silu Equity Investment Fund Limited | 10,595,843 |

- (j) On September 3, 2019, we issued an aggregate of 4,608,366 Series C preferred shares with a par value of US\$0.0001 to Jilin Shougang Chanye Zhenxing Fund Partnership (Limited Partnership) each upon exercise of warrants it held.

- (k) On January 3, 2020, we issued an aggregate of 1,958,556 Series C preferred shares with a par value of US\$0.0001 each to Xiamen Haisi Qimeng Equity Investment Fund Partnership (Limited Partnership) upon exercise of the warrant it held.

- (l) On January 3, 2020, we issued an aggregate of 2,150,571 Series C preferred shares with a par value of US\$0.0001 each to Lighthouse KW Corp.

- (m) On January 3, 2020, we canceled the 3,051,908 Series B-1 preferred shares surrendered to us by Tembusu Limited.

- (n) On January 23, 2020, we issued an aggregate of 18,916,548 Series C preferred shares with a par value of US\$0.0001 each to the following shareholders upon their exercise of their anti-dilution rights:

| Shareholders | Number of Series C preferred shares issued |
|--|--|
| Amp Lee Ltd. | 3,341,986 |
| Rainbow Six Limited | 1,113,995 |
| Angel Like Limited | 222,799 |
| Striver Holdings Ltd. | 1,670,993 |
| Future Capital Discovery Fund II, L.P. | 189,215 |
| Future Capital Discovery Fund I, L.P. | 113,529 |
| Cango Inc. | 2,227,991 |
| BRV Aster Fund II, L.P. | 745,898 |
| BRV Aster Opportunity Fund I, L.P. | 596,718 |
| Unicorn Partners II Investments Limited | 227,058 |
| Jiaxing Zizhiyihao Equity Investment Partnership (Limited Partnership) | 111,400 |
| Xiamen Xinweidachuang Investment Partnership (Limited Partnership) | 2,227,991 |
| Qingdao Cheying Investment Partnership (Limited Partnership) | 556,998 |
| Ningbo Tianshi Renhe Equity Investment Partnership, L.P. | 2,227,991 |
| Jilin Shougang Chanye Zhenxing Fund Partnership (Limited Partnership) | 1,670,993 |
| Chengdu Shougang Silu Equity Investment Fund Limited | 1,670,993 |

- (o) On January 23, 2020, we issued 3,051,908 Series B-1 preferred shares with a par value of US\$0.0001 each to Xiamen Xinweidachuang Investment Partnership (Limited Partnership) upon exercise of warrants it held.
- (p) On July 1, 2020, we issued in aggregate Series D preferred shares with a par value of US\$0.0001 each to each of the following shareholders for an aggregate consideration of US\$550,000,000:

| Shareholders | Number of Series D preferred shares issued | Relevant consideration |
|------------------------------------|--|------------------------|
| | | US\$ |
| Inspired Elite Investments Limited | 212,816,737 | 500,000,000 |
| Kevin Sunny Holding Limited | 7,576,722 | 20,000,000 |
| Amp Lee Ltd. | 11,365,082 | 30,000,000 |

- (q) On August 3, 2020, we completed our initial public offering on Nasdaq where we issued and sold a total of 218,500,000 Class A Ordinary Shares represented by ADSs at a public offering price of US\$11.50 per ADS, including the underwriters' full exercise of their option to purchase additional ADSs.

- (r) On August 3, 2020, we issued and sold in aggregate 66,086,955 Class A Ordinary Shares with a par value of US\$0.0001 each to the following shareholders for an aggregate consideration of US\$380.0 million:

| Shareholders | Number of Class A Ordinary Shares issued and sold | Relevant consideration US\$ |
|------------------------------------|---|-----------------------------------|
| Inspired Elite Investments Limited | 52,173,913 | 300.0 million |
| Bytedance (HK) Limited | 5,217,391 | 30.0 million |
| Zijin Global Inc. | 5,217,391 | 30.0 million |
| Kevin Sunny Holding Limited | 3,478,260 | 20.0 million |

- (s) On December 8, 2020, we completed our follow-up offering on Nasdaq where we issued and sold a total of 108,100,000 Class A Ordinary Shares represented by ADSs at a public offering price of US\$29.00 per ADS, including the underwriters' full exercise of their option to purchase additional ADSs.
- (t) On May 5, 2021, we issued 108,557,400 Class B Ordinary Shares to Amp Lee Ltd. pursuant to the 2021 Plan.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this document.

3. Changes in the share capital of our subsidiaries and Consolidated Affiliated Entities

A summary of the corporate information and the particulars of our subsidiaries and Consolidated Affiliated Entities are set out in note 1 to the Accountant's Report as set out in Appendix I.

The following sets out the changes in the share capital of our subsidiaries and Consolidated Affiliated Entities during the two years immediately preceding the date of this document:

- On August 9, 2019, the registered capital of Jiangsu Xitong was increased from RMB900 million to RMB3,400 million.
- On September 16, 2019, the registered capital of Wheels Technology was increased from RMB1 million to RMB1,000 million.
- On December 13, 2019, the registered capital of Beijing CHJ was decreased from approximately RMB915.2 million to approximately RMB682.9 million.
- On February 3, 2020, the registered capital of Beijing CHJ was increased from approximately RMB682.9 million to approximately RMB725.3 million.

- On February 23, 2020, the registered capital of Chongqing Xinfan was decreased from RMB1,000 million to approximately RMB290 million.
- On May 13, 2020, the registered capital of Beijing CHJ was decreased from approximately RMB725.3 million to approximately RMB433.7 million.
- On May 19, 2020, the registered capital of Lixiang Zhizao Automobile Sales Service (Shenzhen) Co., Ltd. was increased from RMB10 million to RMB50 million.
- On November 5, 2020, the registered capital of Beijing CHJ was decreased from approximately RMB433.7 million to approximately RMB343.9 million.
- On December 11, 2020, the registered capital of Beijing CLX was increased from RMB10 million to RMB310 million.
- On January 15, 2021, the registered capital of Beijing CHJ was decreased from approximately RMB343.9 million to approximately RMB295.5 million.
- On April 20, 2021, the registered capital of Chongqing Lixiang was increased from RMB546 million to RMB1,092 million.
- On April 23, 2021, the registered capital of Xindian Interactive was increased from RMB50 million to RMB52.5 million.
- On May 8, 2021, the registered capital of Jiangsu Xitong was decreased from RMB3,400 million to 2,500 million.
- On July 2, 2021, the registered capital of Lixiang Zhizao Automobile Services (Xiamen) Co., Ltd. was increased from RMB1,000 million to RMB1,200 million.

Save as disclosed above, there has been no alteration in the share capital of any subsidiary or Consolidated Affiliated Entity of our Company within the two years immediately preceding the date of this document.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

Save for the subsidiaries and Consolidated Affiliated Entities mentioned in the Accountant's Report set out in Appendix I, our Company has no other subsidiaries or Consolidated Affiliated Entities.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) an investor rights agreement dated July 26, 2021 entered into between the Company, Xiang Li (李想), Amp Lee Ltd. and Inspired Elite Investments Limited, pursuant to which the Company granted certain investor rights to Inspired Elite Investments Limited and any other subsidiary of Meituan (formerly known as “Meituan Dianping”) that is a shareholder of the Company;
- (b) an exclusive consultation and service agreement dated April 21, 2021 entered into between Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) and Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司), pursuant to which Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) has the exclusive right to provide Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司) with consultation and services such as software development and research services in return for a service fee;
- (c) an equity option agreement dated April 21, 2021 entered into among Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), Li Xiang (李想), Shen Yanan (沈亞楠), Li Tie (李鐵) and Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司), pursuant to which Li Xiang (李想), Shen Yanan (沈亞楠) and Li Tie (李鐵) irrevocably granted Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person an exclusive option to purchase all of their equity interests in Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司) at the lowest price permitted under the laws and regulations of the PRC at the time of exercise;
- (d) an equity pledge agreement dated April 21, 2021 entered into among Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), Li Xiang (李想), Shen Yanan (沈亞楠) and Li Tie (李鐵), pursuant to which Li Xiang (李想), Shen Yanan (沈亞楠) and Li Tie (李鐵) agreed to severally and jointly pledge all of their equity interests in Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司) to Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司);

- (e) a power of attorney dated April 21, 2021 executed by Li Xiang (李想) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Li Xiang (李想), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司);
- (f) a power of attorney dated April 21, 2021 executed by Shen Yanan (沈亞楠) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Shen Yanan (沈亞楠), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司);
- (g) a power of attorney dated April 21, 2021 executed by Li Tie (李鐵) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Li Tie (李鐵), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing CHJ Information Technology Co., Ltd. (北京車和家信息技術有限公司);
- (h) an exclusive consultation and service agreement dated April 21, 2021 entered into between Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) and Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司), pursuant to which Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) has the exclusive right to provide Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司) with consultation and services such as software development and research services in return for a service fee;
- (i) an equity option agreement dated April 21, 2021 entered into among Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), Li Xiang (李想), Fan Zheng (樊錚), Shen Yanan (沈亞楠), Li Tie (李鐵), Qin Zhi (秦致), Liu Qinghua (劉慶華), Wei Wei (韋魏), Song Gang (宋鋼), Ye Qian (葉芊), Xu Bo (徐波) and Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司), pursuant to which Li Xiang (李想), Fan Zheng (樊錚), Shen Yanan (沈亞楠), Li Tie (李鐵), Qin Zhi (秦致), Liu Qinghua (劉慶華), Wei Wei (韋魏), Song Gang (宋鋼), Ye Qian (葉芊) and Xu Bo (徐波) irrevocably granted Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person an exclusive option to purchase all of their equity interests in Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司) at the lowest price permitted under the laws and regulations of the PRC at the time of exercise;

- (j) an equity pledge agreement dated April 21, 2021 entered into among Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), Li Xiang (李想), Fan Zheng (樊錚), Shen Yanan (沈亞楠), Li Tie (李鐵), Qin Zhi (秦致), Liu Qinghua (劉慶華), Wei Wei (韋魏), Song Gang (宋鋼), Ye Qian (葉芊) and Xu Bo (徐波), pursuant to which Li Xiang (李想), Fan Zheng (樊錚), Shen Yanan (沈亞楠), Li Tie (李鐵), Qin Zhi (秦致), Liu Qinghua (劉慶華), Wei Wei (韋魏), Song Gang (宋鋼), Ye Qian (葉芊) and Xu Bo (徐波) agreed to severally and jointly pledge all of their equity interests in Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司) to Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司);
- (k) a power of attorney dated April 21, 2021 executed by Li Xiang (李想) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Li Xiang (李想), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (l) a power of attorney dated April 21, 2021 executed by Fan Zheng (樊錚) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Fan Zheng (樊錚), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (m) a power of attorney dated April 21, 2021 executed by Shen Yanan (沈亞楠) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Shen Yanan (沈亞楠), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (n) a power of attorney dated April 21, 2021 executed by Li Tie (李鐵) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Li Tie (李鐵), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (o) a power of attorney dated April 21, 2021 executed by Qin Zhi (秦致) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Qin Zhi (秦致), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);

- (p) a power of attorney dated April 21, 2021 executed by Liu Qinghua (劉慶華) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Liu Qinghua (劉慶華), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (q) a power of attorney dated April 21, 2021 executed by Wei Wei (韋魏) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Wei Wei (韋魏), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (r) a power of attorney dated April 21, 2021 executed by Song Gang (宋鋼) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Song Gang (宋鋼), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (s) a power of attorney dated April 21, 2021 executed by Ye Qian (葉芊) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Ye Qian (葉芊), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (t) a power of attorney dated April 21, 2021 executed by Xu Bo (徐波) in favor of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), pursuant to which Xu Bo (徐波), among other things, unconditionally and irrevocably authorized Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person(s) to exercise all of his rights as a shareholder of Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司);
- (u) a business operation agreement dated April 21, 2021 entered into among Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司), Beijing Xindian Transport Information Technology Co., Ltd. (北京心電出行信息技術有限公司) (“**Beijing Xindian Transport**”), Li Xiang (李想), Fan Zheng (樊錚), Shen Yanan (沈亞楠), Li Tie (李鐵), Qin Zhi (秦致), Liu Qinghua (劉慶華), Wei Wei (韋魏), Song Gang (宋鋼), Ye Qian (葉芊) and Xu Bo (徐波) (all the foregoing individuals, collectively, the “**Relevant Shareholders**”), pursuant to which the Relevant Shareholders agreed that Beijing Xindian Transport shall not take certain actions without obtaining the prior written consent from Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) or its designated person; Beijing Xindian

Transport and the Relevant Shareholders further agreed to accept and strictly follow the suggestions of Beijing Co Wheels Technology Co., Ltd. (北京羅克維爾斯科技有限公司) relating to the recruitment and dismissal of employees, daily operations and management, financial management systems and other aspects of Beijing Xindian Transport; and






(v) the Hong Kong Underwriting Agreement.





2. Intellectual Property Rights









Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

(a) Trademarks


As at the Latest Practicable Date, we had registered the following trademarks that we consider to be or may be material to our business:

| No. | Trademark | Registered Owner | Place of registration | Class | Registered Number | Expiry Date |
|-----|---|------------------|-----------------------|-------------------|-------------------|-------------|
| 1. | 车和家 | Beijing CHJ | PRC | 12 | 18052447 | 20/11/2026 |
| 2. | 理想 | Beijing CHJ | PRC | 12 | 18593070 | 20/04/2027 |
| 3. | 车和家 | Beijing CHJ | PRC | 9, 12, 35, 37, 42 | 18594873 | 20/01/2027 |
| 4. |  | Beijing CHJ | PRC | 12 | 30718079 | 20/02/2029 |
| 5. |  | Beijing CHJ | PRC | 7 | 31270304 | 13/03/2029 |
| 6. |  | Beijing CHJ | PRC | 9 | 31293362 | 13/03/2029 |
| 7. |  | Beijing CHJ | PRC | 16 | 31283581 | 13/03/2029 |
| 8. |  | Beijing CHJ | PRC | 25 | 31270334 | 13/03/2029 |
| 9. |  | Beijing CHJ | PRC | 28 | 31281874 | 13/03/2029 |
| 10. |  | Beijing CHJ | PRC | 35 | 31283608 | 13/03/2029 |
| 11. |  | Beijing CHJ | PRC | 36 | 31272332 | 13/03/2029 |
| 12. |  | Beijing CHJ | PRC | 37 | 31272343 | 13/03/2029 |
| 13. |  | Beijing CHJ | PRC | 38 | 31280499 | 13/03/2029 |

| No. | Trademark | Registered Owner | Place of registration | Class | Registered Number | Expiry Date |
|-----|---|-------------------|-----------------------|-------|-------------------|-------------|
| 14. |  | Beijing CHJ | PRC | 39 | 31280509 | 13/03/2029 |
| 15. |  | Beijing CHJ | PRC | 41 | 31274857 | 13/03/2029 |
| 16. |  | Beijing CHJ | PRC | 42 | 31270033 | 13/03/2029 |
| 17. |  | Beijing CHJ | PRC | 12 | 32581482 | 06/11/2029 |
| 18. | Li Auto | Beijing CHJ | PRC | 12 | 39933831 | 13/03/2030 |
| 19. | Li Auto | Beijing CHJ | PRC | 9 | 39948572 | 13/03/2030 |
| 20. | 理想同学 | Beijing CHJ | PRC | 9 | 38854327A | 13/05/2030 |
| 21. | 理想同学 | Wheels Technology | PRC | 28 | 43939365 | 06/11/2030 |
| 22. | 理想同学 | Beijing CHJ | PRC | 9 | 38854327 | 13/11/2030 |
| 23. | 理想 | Beijing CHJ | PRC | 12 | 30727125 | 27/05/2030 |
| 24. | Li Auto | Beijing CHJ | PRC | 13 | 42303897 | 06/09/2030 |
| 25. | Li Auto | Beijing CHJ | PRC | 32 | 42294341 | 06/09/2030 |
| 26. | Li Auto | Beijing CHJ | PRC | 22 | 42291900 | 06/09/2030 |
| 27. | Li Auto | Beijing CHJ | PRC | 16 | 42317157 | 27/09/2030 |
| 28. | Li Auto | Beijing CHJ | PRC | 40 | 42310877 | 20/09/2030 |
| 29. | Li Auto | Beijing CHJ | PRC | 3 | 42290314 | 13/09/2030 |
| 30. | Li Auto | Beijing CHJ | PRC | 37 | 42318612 | 27/11/2030 |
| 31. | Li Auto | Beijing CHJ | PRC | 7 | 42318341 | 27/11/2030 |
| 32. | Li Auto | Beijing CHJ | PRC | 6 | 42318336 | 20/11/2030 |
| 33. | Li Auto | Beijing CHJ | PRC | 35 | 42314480 | 27/11/2030 |
| 34. | Li Auto | Beijing CHJ | PRC | 2 | 42313665 | 27/11/2030 |
| 35. | Li Auto | Beijing CHJ | PRC | 39 | 42310871 | 20/11/2030 |
| 36. | Li Auto | Beijing CHJ | PRC | 44 | 42303323 | 27/11/2030 |

| No. | Trademark | Registered Owner | Place of registration | Class | Registered Number | Expiry Date |
|-----|---|------------------|-----------------------|-------|-------------------|-------------|
| 37. | Li Auto | Beijing CHJ | PRC | 4 | 42298580 | 27/11/2030 |
| 38. | Li Auto | Beijing CHJ | PRC | 43 | 42297598 | 27/11/2030 |
| 39. | Li Auto | Beijing CHJ | PRC | 10 | 42294278 | 27/11/2030 |
| 40. | Li Auto | Beijing CHJ | PRC | 45 | 42294118 | 27/11/2030 |
| 41. | Li Auto | Beijing CHJ | PRC | 1 | 42292198 | 27/11/2030 |
| 42. | Li Auto | Beijing CHJ | PRC | 17 | 42290385 | 20/11/2030 |
| 43. | Li ONE | Beijing CHJ | PRC | 12 | 42105065 | 20/11/2030 |
| 44. |  | Beijing CHJ | PRC | 2 | 46965908 | 27/01/2031 |
| 45. |  | Beijing CHJ | PRC | 17 | 46949083 | 27/01/2031 |
| 46. |  | Beijing CHJ | PRC | 24 | 46953124 | 27/01/2031 |
| 47. |  | Beijing CHJ | PRC | 27 | 46953086 | 27/01/2031 |
| 48. |  | Beijing CHJ | PRC | 18 | 46953105 | 20/02/2031 |
| 49. |  | Beijing CHJ | PRC | 20 | 46945427 | 13/04/2031 |
| 50. |  | Beijing CHJ | PRC | 21 | 46961269 | 27/01/2031 |
| 51. |  | Beijing CHJ | PRC | 22 | 46953119 | 20/02/2031 |
| 52. | Li Auto | Beijing CHJ | PRC | 12 | 47549545 | 06/04/2031 |

As at the Latest Practicable Date, we had applied for the registration of the following trademarks that we consider to be or may be material to our business:

| No. | Trademark | Applicant | Class | Application number | Application date (dd/mm/yyyy) |
|-----|---|-------------|-------|--------------------|-------------------------------|
| 1. |  | Beijing CHJ | 20 | 42300048 | 13/11/2019 |
| 2. | Li Auto | Beijing CHJ | 27 | 42291928 | 13/11/2019 |
| 3. | 理想ONE | Beijing CHJ | 12 | 54526899 | 22/03/2021 |

(b) Patents

As at the Latest Practicable Date, we had over 980 patents registered with the State Intellectual Property Office of the PRC and over 760 pending patent applications in mainland China. Globally, we had over 30 patents in various overseas countries and jurisdictions, including Japan, Singapore, the United States and the member States of the European Patent Organization. These registered patents include patents with respect to, among others, designs of automobile, automobile doors, central consoles and tires.

(c) Copyrights

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material in relation to our Group's business:

| No. | Copyright | Version | Registration number | Registration Date (dd/mm/yyyy) |
|-----|---------------------------|----------|---------------------|--------------------------------|
| 1. | Android_SystemUI 圖標狀態更新軟件 | V1.0 | 2018SR808871 | 11/10/2018 |
| 2. | 車和家動力電池的高壓管理軟件 | V1.0 | 2017SR713571 | 21/12/2017 |
| 3. | 車和家公共控件樣式系統 | V1.0 | 2018SR782590 | 27/09/2018 |
| 4. | 車和家外擴Flash程序軟件 | V1.0 | 2017SR714536 | 21/12/2017 |
| 5. | 車機用戶權限管理系統 | V1.0 | 2018SR1027155 | 17/12/2018 |
| 6. | 電動車動力電池的功率估算的軟件 | V1.0 | 2017SR718011 | 22/12/2017 |
| 7. | 高通ANDROID平台上的多APN系統 | V1.0 | 2018SR788990 | 28/09/2018 |
| 8. | 藍牙功能庫軟件 | V1.0 | 2018SR469690 | 21/06/2018 |
| 9. | 理想智造官方客戶端軟件(Android版) | V1.0.0 | 2018SR945860 | 27/11/2018 |
| 10. | 理想智造官方客戶端軟件(iOS版) | V1.0.0 | 2018SR1071069 | 25/12/2018 |
| 11. | 語音路由軟件 | V1.0 | 2018SR782808 | 27/09/2018 |
| 12. | 智能汽車時間同步的軟件 | V1.0 | 2018SR226467 | 02/04/2018 |
| 13. | 車機零件報警系統 | V1.0 | 2019SR0601890 | 12/06/2019 |
| 14. | 車機藍牙電話軟件 | V1.0 | 2019SR0819364 | 07/08/2019 |
| 15. | 手機聯動軟件 | V1.0 | 2019SR0822048 | 08/08/2019 |
| 16. | CandyIME 輸入法軟件 | V1.0 | 2019SR0821947 | 08/08/2019 |
| 17. | 幫助中心軟件 | V1.0 | 2019SR0822057 | 08/08/2019 |
| 18. | 車機地圖管理系統 | V1.0 | 2019SR0821953 | 08/08/2019 |
| 19. | 理想智造官方客戶端軟件 | iOS版 | 2019SR1099818 | 30/10/2019 |
| 20. | 理想汽車軟件 | Android版 | 2019SR1099812 | 30/10/2019 |
| 21. | 聽說車里有恐龍車載遊戲軟件 | V1.0 | 2020SR0269150 | 18/03/2020 |
| 22. | 一種驗證車載HMI RPC通信穩定性的系統 | V1.0 | 2020SR0991363 | 26/08/2020 |
| 23. | 車載行車記錄儀庫軟件 | V1.0 | 2020SR0693143 | 29/06/2020 |

| No. | Copyright | Version | Registration number | Registration Date (dd/mm/yyyy) |
|-----|---|---------|---------------------|--------------------------------|
| 24. | 理想ROM系統 | V1.0 | 2020SR1142271 | 22/09/2020 |
| 25. | 一種運用硬件信號握手機制的RPC通信系統 | V1.0 | 2020SR1044601 | 04/09/2020 |
| 26. | 瞬時功率採集工具軟件 | V0.1.2 | 2020SR1041067 | 04/09/2020 |
| 27. | 電動四驅車型前後軸扭矩分配能耗最優分析計算軟件 | V1.0 | 2020SR1196088 | 09/10/2020 |
| 28. | 新能源汽車App自動化審計平台 | V1.0 | 2020SR1885929 | 24/12/2020 |
| 29. | 理想大數據平台調度系統 | V2.0 | 2020SR1885930 | 24/12/2020 |
| 30. | 理想數據分析平台 | V1.5 | 2020SR1884626 | 23/12/2020 |
| 31. | ADAS數據分析平台 | V1.0 | 2020SR1806841 | 14/12/2020 |
| 32. | 數據採集回傳系統 | V1.0 | 2020SR1800707 | 11/12/2020 |
| 33. | 自動駕駛數據回放軟件 | V1.0 | 2020SR1800709 | 11/12/2020 |
| 34. | 感知環境模型引擎系統 | V1.0 | 2020SR1792951 | 11/12/2020 |
| 35. | 消息隊列運營管理系統 | V1.0 | 2020SR1800708 | 11/12/2020 |
| 36. | 自動駕駛數據作業任務系統 | V1.0 | 2020SR1792952 | 11/12/2020 |
| 37. | MongoDB運營管理系統 | V1.0 | 2020SR1792950 | 11/12/2020 |
| 38. | 理想App內測平台 | V1.0 | 2020SR1732643 | 04/12/2020 |
| 39. | 日誌管理系統 | V1.0 | 2020SR1732725 | 04/12/2020 |
| 40. | 應用數據安全系統 | V1.0 | 2020SR1728052 | 03/12/2020 |
| 41. | 理想混合開發平台 | V1.0 | 2020SR1728064 | 03/12/2020 |
| 42. | 桌面Launcher軟件 | V1.8 | 2020SR1728026 | 03/12/2020 |
| 43. | LiOS軟件 | V1.0 | 2020SR1728053 | 03/12/2020 |
| 44. | 理想同學軟件 | V1.3.11 | 2020SR1201103 | 10/10/2020 |
| 45. | 智能充電軟件 | V1.1.2 | 2020SR1201111 | 10/10/2020 |
| 46. | 一種基於XModem協議升級NXP_S32K144處理器的BootLoader軟件 | V1.0 | 2021SR0141168 | 26/01/2021 |
| 47. | 一種基於 i.MX RT1060處理器控制3節點A2B系統的軟件 | V1.0 | 2021SR0146757 | 27/01/2021 |
| 48. | 一種基於S32K處理器控制DAC的16通道功放測試平台 | V1.0 | 2021SR0550866 | 19/04/2021 |
| 49. | 導航輔助駕駛系統 | V1.0 | 2021SR0866606 | 09/06/2021 |

(d) Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

| No. | Domain name | Registered owner | Expiry date (dd/mm/yyyy) |
|------------|--------------------|-------------------------|---------------------------------|
| 1. | lixiang.com | Beijing CLX | 29/11/2021 |
| 2. | liauto.com | Beijing CHJ | 08/11/2021 |
| 3. | ampmake.com | Beijing CHJ | 12/10/2021 |
| 4. | li.auto | Beijing CLX | 09/07/2022 |
| 5. | chehejia.com | Beijing CHJ | 29/04/2023 |

C. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Particulars of Directors' service contracts and appointment letters****(a) Executive Directors**

Each of our executive Directors has entered into an employment agreement with our Company on July 27, 2021. The term of appointment shall be for an initial term of three years from the Listing Date or until the third annual general meeting of our Company after the Listing Date, whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three months' written notice.

No annual director's fees are payable to the executive Directors under the current arrangement.

(b) Non-executive Directors and independent non-executive Directors

Each of the non-executive Directors has entered into an appointment letter with our Company on July 27, 2021. The initial term for their appointment letters shall commence from the date of their appointments and shall continue for three years after or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing. Under these appointment letters, the non-executive Directors, being Mr. Wang Xing and Mr. Fan Zheng, shall receive no annual salaries and US\$50,000, per annum respectively, in their capacity as non-executive Directors.

Each of the independent non-executive Directors has entered into an appointment letter with our Company on July 27, 2021. The initial term for their appointment letters shall be three years from the date of this document or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under these appointment letters, each of our independent non-executive Directors shall receive an annual director's fee of US\$50,000 per annum.

2. Remuneration of Directors

- (a) Remuneration and benefits in kind of RMB5.2 million, RMB5.5 million, RMB64.4 million, RMB1.4 million and RMB22.7 million in aggregate were paid and granted by our Group to our Directors in respect of the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, respectively.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2021, is expected to be approximately RMB92.4 million in aggregate (excluding discretionary bonus).
- (c) None of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

3. Disclosure of interests

- (a) *Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the Global Offering*

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes), the interests and/or short positions (as applicable) of our Directors and chief executives in the Shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interest in Shares and Underlying Shares of our Company

| Name of director | Nature of interest | Number and class of securities | Approximate percentage of interest in each class of Shares of our Company immediately after the Global Offering ⁽¹⁾ |
|------------------|--|--|--|
| Mr. Li Xiang | Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust | 108,557,400 Class A Ordinary Shares ⁽²⁾ | 6.40% |
| | Interest in a controlled corporation/founder of a discretionary trust/beneficiary of a trust | 355,812,080 Class B Ordinary Shares ⁽²⁾ | 100% |
| Mr. Shen Yanan | Interest in a controlled corporation/founder of a discretionary trust/beneficiary of a trust | 15,000,000 Class A Ordinary Shares ⁽³⁾ | 0.88% |
| | Beneficial interest | 17,000,000 Class A Ordinary Shares ⁽⁴⁾ | 1.00% |
| Mr. Li Tie | Interest in a controlled corporation/founder of a discretionary trust/beneficiary of a trust | 14,373,299 Class A Ordinary Shares ⁽⁵⁾ | 0.85% |
| | Beneficial interest | 10,000,000 Class A Ordinary Shares ⁽⁶⁾ | 0.59% |
| Mr. Ma Donghui | Beneficial interest | 11,000,000 Class A Ordinary Shares ⁽⁷⁾ | 0.65% |

| Name of director | Nature of interest | Number and class of securities | Approximate percentage of interest in each class of Shares of our Company immediately after the Global Offering ⁽¹⁾ |
|------------------|--|--|---|
| Mr. Wang Xing | Interest in a controlled corporation/founder of a discretionary trust/beneficiary of a trust | 131,883,776 Class A Ordinary Shares ⁽⁸⁾ | 7.78% |
| | Interest in a controlled corporation/founder of a discretionary trust/beneficiary of a trust | 258,171,601 Class A Ordinary Shares ⁽⁹⁾ | 15.22% |
| | Interest in a controlled corporation/founder of a discretionary trust/beneficiary of a trust | 1,379,310 Class A Ordinary Shares ⁽¹⁰⁾ | 0.08% |
| Mr. Fan Zheng | Interest in a controlled corporation/founder of a discretionary trust/beneficiary of a trust | 86,978,960 Class A Ordinary Shares ⁽¹¹⁾ | 5.13% |

Notes:

- (1) The calculations are made assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes and assuming no Class B Ordinary Shares are converted into Class A Ordinary Shares.
- (2) The 355,812,080 Class B Ordinary Shares and the 108,557,400 CEO Award Shares (which are Class A Ordinary Shares with one vote per share) are held by Amp Lee Ltd, a company incorporated in British Virgin Islands and is wholly owned by Cyric Point Enterprises Limited. The entire interest in Cyric Point Enterprises Limited is held by a trust that was established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family. Mr. Li is deemed to be interested in the Class B Ordinary Shares held by Amp Lee Ltd.
- (3) This includes 15,000,000 Class A Ordinary Shares held by Da Gate Limited. Da Gate Limited is a company incorporated in British Virgin Islands and is wholly owned by Brave City Group Limited. The entire interest in Brave City Group Limited is held by a trust that was established by Mr. Shen Yanan (as the settlor) for the benefit of Mr. Shen Yanan and his family. Mr. Shen Yanan is deemed to be interested in the Class A Ordinary Shares held by Da Gate Limited.
- (4) Represents Mr. Shen Yanan's entitlement to receive up to 17,000,000 Class A Ordinary Shares pursuant to the exercise of options granted to him under the Share Incentive Plans, subject to the conditions (including vesting conditions) of those options.

- (5) This includes 14,373,299 Class A Ordinary Shares held by Sea Wave Overseas Limited. Sea Wave Overseas Limited is a company incorporated in British Virgin Islands and is wholly owned by Day Express Group Limited. The entire interest in Day Express Group Limited is held by a trust that was established by Mr. Li Tie (as the settlor) for the benefit of Mr. Li Tie and his family. Mr. Li Tie is deemed to be interested in the Class A Ordinary Shares held by Sea Wave Overseas Limited.
- (6) Represents Mr. Li Tie's entitlement to receive up to 10,000,000 Class A Ordinary Shares pursuant to the exercise of options granted to him under the Share Incentive Plans, subject to the conditions (including vesting conditions) of those options.
- (7) Represents Mr. Ma Donghui's entitlement to receive up to 11,000,000 Class A Ordinary Shares pursuant to the exercise of options granted to him under the Share Incentive Plans, subject to the conditions (including vesting conditions) of those options.
- (8) This includes 131,883,776 Class A Ordinary Shares held by Zijin Global Inc.. Zijin Global Inc. is a company incorporated in British Virgin Islands. Zijin Global Inc. is wholly owned by Songtao Limited. The entire interest in Songtao Limited is held by a trust that was established by Mr. Wang Xing (as the settlor) for the benefit of Mr. Wang Xing and his family, with the trustee being TMF (Cayman) Ltd. As such, Mr. Wang Xing is deemed to be interested in the Class A Ordinary Shares held by Zijin Global Inc.
- (9) This includes 258,171,601 Class A Ordinary Shares held by Inspired Elite Investments Limited, a company incorporated in British Virgin Islands. Inspired Elite Investments Limited is a wholly owned subsidiary of Meituan, a company incorporated in the Cayman Islands and listed on the Hong Kong Stock Exchange (stock code: 3690). Mr. Wang Xing is a director and the controlling shareholder of Meituan. As such, Mr. Wang Xing is deemed to be interested in the Class A Ordinary Shares held by Inspired Elite Investments Limited.
- (10) Zijin Global Inc. holds 1,379,310 Class A Ordinary Shares represented by 689,655 ADSs as the beneficial owner.
- (11) This includes 86,978,960 Class A Ordinary Shares held by Rainbow Six Limited, a company incorporated in British Virgin Islands and is wholly owned by Star Features Developments Limited. The entire interest in Star Features Development Limited is held by a trust that was established by Mr. Fan Zheng (as the settlor) for the benefit of Mr. Fan Zheng and his family. As such, Mr. Fan Zheng is deemed to be interested in the Class A Ordinary Shares held by Rainbow Six Limited.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

For information on the persons who will, immediately following the completion of the Global Offering and taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the Share Incentive Plans, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, please see the section headed "Substantial Shareholders."

4. Disclaimers

Save as disclosed in this document:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;

- (b) none of the Directors or the experts named in the section headed “Other Information — Consents of Experts” below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this document;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;
- (e) taking no account of any Shares which may be taken up under the Global Offering and allotted and issued pursuant to the Share Incentive Plans, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (f) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

D. SHARE INCENTIVE PLANS**1. The 2019 Plan***Summary*

The Company will not issue any options under the 2019 Plan, which was approved by the Board on July 2, 2019, until the 2019 Plan is amended to comply with Chapter 17 of the Listing Rules. The Board is permitted to make the necessary amendments to the 2019 Plan under the terms of such plan to comply with Chapter 17 of the Listing Rules and, pursuant to written resolutions of the Board passed on July 16, 2021 and July 27, 2021, have approved such amendments to take effect immediately upon the Listing. The principal terms of the 2019 Plan, as amended, are as described below.

We have applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix IA to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. See the section headed “Waivers and Exemptions—Waiver and Exemption in relation to the 2019 Plan and 2020 Plan” in this document for more information. We have also applied to the Stock Exchange for a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules, so that the Company may, after the Listing, continue to grant options with exercise prices based on the market price of its ADSs as traded on the Nasdaq instead of the closing price of the Class A Ordinary Shares as stated in the Stock Exchange’s daily quotation sheet. See the sub-section headed “Waivers and Exemption—Exercise price of options to be granted pursuant to the 2019 Plan and the 2020 Plan after the Listing” in this document for more information.

(a) Purpose

The purpose of the 2019 Plan is to secure and retain the services of valuable employees, directors, or consultants and provide incentives for such persons to exert their best efforts for the success of our business.

(b) Who may join

We may grant awards to employees, consultants and directors of our company.

(c) Maximum number of Class A Ordinary Shares

The overall limit on the number of underlying Shares pursuant to the 2019 Plan is 141,083,452 Class A Ordinary Shares, of which only up to 123,349,000 may be issued pursuant to Awards granted in the form of options. As of the Latest Practicable Date, the Company has granted Awards in the form of options pursuant to the 2019 Plan

representing a total of 56,436,000 underlying Class A Ordinary Shares (including those that have been exercised but excluding those that were terminated or lapsed and reverted to the award pool). The Company will not issue any further Awards pursuant to the 2019 Plan between the Latest Practicable Date and the Listing. As such, upon the Listing, the Company may grant further Awards representing a total of 84,647,452 Class A Ordinary Shares pursuant to the 2019 Plan, of which only up to 66,913,000 may be issued pursuant to Awards granted in the form of options. The total number of Class A Ordinary Shares which may be issued upon exercise of all options that may be granted pursuant to the 2019 Plan and the 2020 Plan in aggregate does not exceed 10% of the total number of Class A Ordinary Shares in issue upon the Listing.

(d) Administration

Our board of directors or a committee of one or more members of the board of directors administers the 2019 Plan. The committee or the board of directors determines, among other things, the participants eligible to receive awards, the type or types of awards to be granted to each eligible participant, the number of awards to be granted to each eligible participant, and the terms and conditions of each award grant.

(e) Awards

The 2019 Plan permits the awards of options, restricted shares, restricted share unit (“RSU”) awards and share appreciation rights or other types of awards approved by the board of directors. At the discretion of the Board or the committee delegated with the authority to administer the plan, American depository shares in an amount equivalent to the number of Shares which otherwise would be distributed pursuant to an Award may be distributed in lieu of Shares in settlement of any Award.

Awards granted under the 2019 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the option, the provisions applicable in the event that the grantee’s employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award. We will also comply with the requirements under Chapter 14A of the Listing Rules (to the extent applicable) with respect to the grant of Awards (including the grant of awards with respect to the Class A Ordinary Shares issued to the Depositary for bulk issuance of ADSs) to connected persons after the Listing.

(f) Terms and conditions of the 2019 Plan

Unless terminated earlier, the 2019 Plan has a term of ten years. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Awards may not be transferred in any manner by the eligible participant other than in accordance with the exceptions provided in the 2019 Plan, such as transfers to the immediate family members of the eligible participant, the holding companies controlled by the eligible participant or the eligible participant’s immediate family members, or trusts established for the benefit of the eligible participant or the eligible employee’s family members, or as approved by the plan administrator.

(g) Options

Unless approved by the Shareholders in general meeting, the total number of Class A Ordinary Shares issued and to be issued upon the exercise of options granted and to be granted under the 2019 Plan and any other plan of the Company to an eligible participant within any 12-month period shall not exceed 1% of the Class A Ordinary Shares issued and outstanding at the date of any grant.

No option shall be granted to any eligible participant in circumstances prohibited by any applicable laws or at a time when the eligible participant would or might be prohibited from dealing in the Shares by any applicable laws. No option shall be granted to any eligible participant where such person is in possession of any unpublished inside information in relation to the Company until such inside information has been published in an announcement in accordance with the applicable laws. Furthermore, no option shall be granted:

- (a) during the period of 60 days immediately preceding the publication date of the annual results of the Company or, if shorter, the period from the end of the relevant financial year up to the publication date of such results; and
- (b) during the period of 30 days immediately preceding the publication date of the half-year results of the Company or, if shorter, the period from the end of the relevant half-year period up to the publication date of such results.

Such period will also cover any period of delay in the publication of any results announcement.

The plan administrator determines the exercise price for each award, which is stated in the relevant award agreement and shall not be lower than the fair market value of the Shares on the date of grant, which shall be the higher of: (i) the closing sales price for such Shares or securities as quoted on the principal exchange or system on which the Shares or securities of the Company are listed (as determined by the Board or the committee delegated with the authority to administer the plan) on the date of grant, and (ii) average closing sales price as quoted on the principal exchange or system on which the Shares or securities of the Company are listed for the five business days immediately preceding the date of grant. Options that are vested and exercisable will terminate if they are not exercised prior to the time as the plan administrator determines at the time of grant. However, the maximum exercisable term is ten years from the date of grant. In the case of an option granted to an employee who, immediately prior to the time the option is granted, owns stock representing more than 10% of the voting power of all classes of our stock or any parent or subsidiary of us, the term of option shall be no longer than five years from the date of grant. Any option granted but not exercised by the end of its term will automatically lapse and be cancelled.

(h) Amendment and termination

The board of directors has the authority to terminate, amend, add to or delete any of the provisions of the plan, subject to the limitations of applicable laws. However, no termination, amendment or modification of the 2019 Plan may adversely affect in any material way any award previously granted pursuant to the 2019 Plan.

Notwithstanding the other provisions of the 2019 Plan, to the extent required under the rules of any securities exchange or market system on which the Shares are listed, amendments to the terms of options granted under the 2019 Plan shall be subject to approval by the Shareholders entitled to vote at a meeting of the Shareholders.

Outstanding options granted

For the detailed information regarding outstanding options granted under the 2019 Plan, please see the sub-section headed “—Outstanding options and RSUs granted under the 2019 Plan and the 2020 Plan” below.

2. The 2020 Plan*Summary*

The Company will not issue any options under the 2020 Plan, which was approved by the Board on July 9, 2020, until the 2020 Plan is amended to comply with Chapter 17 of the Listing Rules. The Board is permitted to make the necessary amendments to the 2020 Plan under the terms of such plan to comply with Chapter 17 of the Listing Rules and, pursuant to written resolutions of the Board passed on July 16, 2021 and July 27, 2021, have approved such amendments to take effect immediately upon the Listing. The principal terms of the 2020 Plan, as amended, are as described below.

We have applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix IA to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. See the paragraph headed “Waivers and Exemptions—Waiver and Exemption in relation to the 2019 Plan and 2020 Plan” in this document for more information. We have also applied to the Stock Exchange for a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules, so that the Company may, after the Listing, continue to grant options with exercise prices based on the market price of its ADSs as traded on the Nasdaq instead of the closing price of the Class A Ordinary Shares as stated in the Stock Exchange’s daily quotation sheet. See the sub-section headed “Waivers and Exemption—Exercise price of options to be granted pursuant to the 2019 Plan and the 2020 Plan after the Listing” in this document for more information.

(a) Purpose

The purpose of the 2020 Plan is to secure and retain the services of valuable employees, directors, or consultants and provide incentive for such persons to exert their best efforts for the success of our business.

(b) Who may join

We may grant awards to directors, consultants, and employees of our company.

(c) Maximum number of Class A Ordinary Shares

The overall limit on the number of underlying Shares pursuant to the 2020 Plan is 165,696,625 Class A Ordinary Shares, of which only up to 138,473,500 may be issued pursuant to Awards granted in the form of options. As of the Latest Practicable Date, the Company had granted Awards in the form of options and RSUs pursuant to the 2020 Plan representing a total of 35,792,086 underlying Class A Ordinary Shares (including those that have been exercised but excluding those that were terminated or lapsed and reverted to the award pool). The Company will not issue any further Awards pursuant to the 2020 Plan between the Latest Practicable Date and the Listing. As such, upon the Listing, the Company may grant further Awards representing a total of 129,904,539 Class A Ordinary Shares pursuant to the 2020 Plan, of which only up to 102,690,000 may be issued pursuant to Awards granted in the form of options. The total number of Class A Ordinary Shares which may be issued upon exercise of all options that may be granted pursuant to the 2019 Plan and the 2020 Plan in aggregate does not exceed 10% of the total number of Class A Ordinary Shares in issue upon the Listing.

(d) Administration

Our board of directors or a committee of one or more members of the board of directors administers the 2020 Plan. The committee or the board of directors determines, among other things, the participants eligible to receive awards, the type or types of awards to be granted to each eligible participant, the number of awards to be granted to each eligible participant, and the terms and conditions of each award grant.

(e) Awards

The 2020 Plan permits the awards of options, restricted shares, and RSU awards or other types of awards approved by the board of directors. At the discretion of the Board or the committee delegated with the authority to administer the plan, American depository shares in an amount equivalent to the number of Shares which otherwise would be distributed pursuant to an Award may be distributed in lieu of Shares in settlement of any Award.

Awards under the 2020 Plan are evidenced by an award agreement that set forth the terms, conditions, and limitations for each award, which may include the term of the award, the provisions applicable in the event the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel, or rescind the Award. We will also comply with the requirements under Chapter 14A of the Listing Rules (to the extent applicable) with respect to the grant of Awards (including the grant of awards with respect to the Class A Ordinary Shares issued to the Depository for bulk issuance of ADSs) to connected persons after the Listing.

(f) Terms and conditions of the 2020 Plan

Unless terminated earlier, the 2020 Plan has a term of ten years. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Awards may not be transferred in any manner by the eligible participant other than in accordance with the exceptions provided in the 2020 Plan, such as transfers to our company or a subsidiary of ours, transfers to the immediate family members of the participant by gift, the designation of a beneficiary to receive benefits if the participant dies, permitted transfers or exercises on behalf of the participant by the participant's duly authorized legal representative if the participant has suffered a disability, or, subject to the prior approval of the plan administrator or our executive officer or director authorized by the plan administrator, transfers to one or more natural persons who are the participant's family members or entities owned and controlled by the participant and/or the participant's family members, including but not limited to trusts or other entities whose beneficiaries or beneficial owners are the participant and/or the participant's family members, or to such other persons or entities as may be expressly approved by the plan administrator, pursuant to such conditions and procedures as the plan administrator may establish.

(g) Options

Unless approved by the Shareholders in general meeting, the total number of Class A Ordinary Shares issued and to be issued upon the exercise of options granted and to be granted under the 2020 Plan and any other plan of the Company to an eligible participant within any 12-month period shall not exceed 1% of the Class A Ordinary Shares issued and outstanding at the date of any grant.

No option shall be granted to any eligible participant in circumstances prohibited by any applicable laws or at a time when the eligible participant would or might be prohibited from dealing in the Shares by any applicable laws. No option shall be granted to any eligible participant where such person is in possession of any unpublished inside information in relation to the Company until such inside information has been published in an announcement in accordance with the applicable laws. Furthermore, no option shall be granted:

- (a) during the period of 60 days immediately preceding the publication date of the annual results of the Company or, if shorter, the period from the end of the relevant financial year up to the publication date of such results; and
- (b) during the period of 30 days immediately preceding the publication date of the half-year results of the Company or, if shorter, the period from the end of the relevant half-year period up to the publication date of such results.

Such period will also cover any period of delay in the publication of any results announcement.

The plan administrator determines the exercise price for each award, which is stated in the relevant award agreement shall not be lower than the fair market value of the Shares on the date of grant, which shall be the higher of: (i) the closing sales price for such Shares or securities as quoted on the principal exchange or system on which the Shares or securities of the Company are listed (as determined by the Board or the committee delegated with the authority to administer the plan) on the date of grant, and (ii) average closing sales price as quoted on the principal exchange or system on which the Shares or securities of the Company are listed for the five business days immediately preceding the date of grant. Options that are vested and exercisable will terminate if they are not exercised prior to the time as the plan administrator determines at the time of grant. However, the maximum exercisable term is ten years from the date of grant. Any option granted but not exercised by the end of its term will automatically lapse and be cancelled.

(h) Amendment and termination

Our board of directors has the authority to terminate, amend, add to, or delete any of the provisions of the plan, subject to the limitations of applicable laws. However, no termination, amendment, or modification of the 2020 Plan may adversely affect in any material way any award previously granted pursuant to the 2020 Plan.

Notwithstanding the other provisions of the 2019 Plan, to the extent required under the rules of any securities exchange or market system on which the Shares are listed, amendments to the terms of options granted under the 2019 Plan shall be subject to approval by the Shareholders entitled to vote at a meeting of the Shareholders.

Outstanding options and RSUs granted

For the detailed information regarding outstanding options and RSUs granted under the 2020 Plan, please see the sub-section headed “—Outstanding options and RSUs granted under the 2019 Plan and the 2020 Plan” below.

3. Outstanding options and RSUs granted under the 2019 Plan and the 2020 Plan

As of the Latest Practicable Date, the number of underlying Shares pursuant to the outstanding options granted under the 2019 Plan amounted to 55,393,578 Class A Ordinary Shares, representing approximately 2.70% of the issued Shares immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes). Of the 55,393,578 options, 45,578,778 have vested and 9,814,800 remain unvested as of the Latest Practicable Date. As at the Latest Practicable Date, we had conditionally granted options to 297 participants under the 2019 Plan. All the options under the 2019 Plan were granted between December 1, 2019 and January 1, 2021 (both days inclusive). The exercise price of all the options granted under the 2019 Plan is US\$0.10 per Class A Ordinary Share.

Assuming full vesting and exercise of all outstanding options granted under the 2019 Plan, the shareholding of our Shareholders immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under Share Incentive Plans or pursuant to the conversion of the 2028 Notes) will be diluted by approximately 2.63%. The dilution effect on our earnings per Share would be approximately 2.63%.

As of the Latest Practicable Date, no RSU or restricted share has been granted under the 2019 Plan.

As of the Latest Practicable Date, the number of underlying Shares pursuant to the outstanding options granted under the 2020 Plan amounted to 35,783,500 Class A Ordinary Shares, representing approximately 1.74% of the issued Shares immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes). Of the 35,783,500 options, 10,800 had vested and 35,772,700 remained unvested as of the Latest Practicable Date. As at the Latest Practicable Date, we had conditionally granted options to 1,883 participants under the 2020 Plan. All the options under the 2020 Plan were granted on January 1, 2021 and July 1, 2021. The exercise price of all the options granted under the 2020 Plan is US\$0.10 per share.

Assuming full vesting and exercise of all options granted under the 2020 Plan, the shareholding of our Shareholders immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under Share Incentive Plans or pursuant to the conversion of the 2028 Notes) will be diluted by approximately 1.71%. The dilution effect on our earnings per Share would be approximately 1.71%.

As of the Latest Practicable Date, the number of underlying Shares pursuant to the outstanding RSUs granted under the 2020 Plan amounted to 8,586 Class A Ordinary Shares, representing approximately 0.00% of the issued Shares immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes). Of the 8,586 RSUs, none have vested and 8,586 remain unvested as of the Latest Practicable Date. The RSUs were granted to one participant on July 1, 2021.

As of the Latest Practicable Date, no restricted share has been granted under the 2020 Plan.

In compliance with Note (2) to Rule 17.03(9) of the Listing Rules, the total number of Class A Ordinary Shares that may be issued pursuant to all outstanding options granted and yet to be exercised under the 2019 Plan and the 2020 Plan upon the Listing (assuming there no options were exercised between the Latest Practicable Date and the Listing Date) amounted to 91,177,078, representing 5.38% of the total Class A Ordinary Shares in issue upon the Listing (assuming the Over-allotment Option is not exercised and no further Shares are issued pursuant to the conversion of the 2028 Notes).

Upon the Listing, the Company may grant further Awards representing a total of 214,551,991 Class A Ordinary Shares pursuant to the 2019 Plan and the 2020 Plan. Assuming the Company grants Awards representing all such shares and assuming full vesting and exercise of all such Awards, the shareholding of our Shareholders immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and no further Shares are issued pursuant to the conversion of the 2028 Notes) will be diluted by approximately 9.47%. The dilution effect on our earnings per Share would be approximately 9.47%. In compliance with Note (1) to Rule 17.03(9) of the Listing Rules, among the 214,551,991 Class A Ordinary Shares, only up to 169,603,000, representing approximately 10.00% of the total Class A Ordinary Shares in issue upon the Listing, may be issued pursuant to Awards granted in the form of options.

Below is a list of the grantees of the outstanding options under the 2019 Plan and the 2020 Plan who are the Directors and senior management of the Company. Other than the Directors listed below, none of the grantees under the 2019 Plan and the 2020 Plan is a connected person of the Company.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

| | | | | | | | | | Approximate % of issued shares immediately after completion of the Global Offering ⁽¹⁾ | Approximate % of voting rights immediately after completion of the Global Offering ⁽²⁾ |
|------------|--------------------------------|---|---------------------|----------------------|----------------------------------|-----------------------------|---|---|--|--|
| Name | Role | Address | Date of grant | Expiry date | Vesting period ⁽³⁾ | Share Incentive Plans | Exercise price per Class A Ordinary Share (US\$) | Number of Class A Ordinary Shares outstanding | | |
| Shen Yanan | Director and President | Unit 6 C, Building No. 1, Bi Yuan Bi Hua Ting Ju Futian District Shenzhen Guangdong, China | December 1, 2019 | November 1, 2025 | 5 years | 2019 Plan | 0.10 | 15,000,000 | 0.73% | 0.29% |
| | | | January 1, 2021 | January 1, 2031 | 5 years | 2020 Plan | 0.10 | 2,000,000 | 0.10% | 0.04% |
| | | | | | | | | | | |
| | | | | | | | Subtotal: | 17,000,000 | 0.83% | 0.33% |
| Li Tie | Chief Financial Officer | Unit 601, Gate No. 2, Building No. 5, No. 15 Xue Yuan South Road, Haidian District, Beijing, China | December 1, 2019 | December 31, 2026 | 5 years | 2019 Plan | 0.10 | 10,000,000 | 0.49% | 0.20% |
| | | | | | | | | | | |
| | | | | | | | Subtotal: | 10,000,000 | 0.49% | 0.20% |
| Ma Donghui | Chief Engineer | Unit 2008, Level 2, Lian Pa Yuan, Beiyuan Jiayuan, Chaoyang District, Beijing, China | December 1, 2019 | November 1, 2025 | 5 years | 2019 Plan | 0.10 | 10,000,000 | 0.49% | 0.20% |
| | | | January 1, 2021 | January 1, 2031 | 5 years | 2020 Plan | 0.10 | 1,000,000 | 0.05% | 0.02% |
| | | | | | | | | | | |
| | | | | | | | Subtotal: | 11,000,000 | 0.54% | 0.22% |
| Wang Kai | Chief Technology Officer | No. 403, Gate No. 1, Building No. 2, Complex No. 9, Min Zu Yuan Road, Chaoyang District, Beijing, China | January 1, 2021 | January 1, 2031 | 5 years | 2020 Plan | 0.10 | 1,000,000 | 0.05% | 0.02% |
| | | | | | | | | | | |
| | | | | | | | Subtotal: | 1,000,000 | 0.05% | 0.02% |
| Total: | 4 grantees | | | | | | | 39,000,000 | 1.90% | 0.76% |

Notes:

- (1) The calculation is made assuming the Over-allotment Option is not exercised, no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes.
- (2) The calculation is made assuming that the Over-allotment Option is not exercised, none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares (which are Class A Ordinary Shares with one vote per share), no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, no Class B Ordinary Shares are converted into Class A Ordinary Shares and without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans. The percentage takes into account the weighted voting rights of the Class B Ordinary Shares, which carry 10 votes per share in relation to resolutions at the general meetings of the Company.
- (3) The exercise period of the options granted shall commence from the date on which the relevant options become vested and ended on the expiry date, subject to the terms of the relevant Share Incentive Plan and the share option award agreement signed by the grantee.

The table below shows the details of the outstanding options granted to other grantees (who are not Directors or members of the senior management or connected persons of the Company) under the 2019 Plan and the 2020 Plan:

| Category by number of underlying Class A Ordinary Shares | Number of grantees | Date of grant | Expiry date | Vesting period ⁽³⁾ | Exercise price per Class A Ordinary Share (US\$) | Number of Class A Ordinary Shares outstanding | Approximate % of issued shares immediately after completion of the Global Offering ⁽¹⁾ | Approximate % of voting rights immediately after completion of the Global Offering ⁽²⁾ |
|---|---------------------------|--|---|----------------------------------|---|---|--|--|
| 750,001 to 1,000,000 | 2 | December 1, 2019 to January 1, 2021 | July 1, 2027 to January 1, 2031 | 5 years | 0.10 | 1,800,000 | 0.09% | 0.04% |
| 500,001 to 750,000 | 7 | December 1, 2019 to July 1, 2021 | November 2, 2025 to July 1, 2031 | 3-5 years | 0.10 | 4,400,000 | 0.21% | 0.09% |
| 250,001 to 500,000 | 12 | December 1, 2019 to July 1, 2021 | November 2, 2025 to July 1, 2031 | 1-5 years | 0.10 | 4,603,000 | 0.22% | 0.09% |
| 1 to 250,000 | 2,082 | December 1, 2019 to July 1, 2021 | September 6, 2021 to July 1, 2031 | 1-5 years | 0.10 | 41,374,078 | 2.02% | 0.81% |
| Subtotal: | 2,103 grantees | | | | | 52,177,078 | 2.54% | 1.02% |

Notes:

- (1) The calculation is made assuming the Over-allotment Option is not exercised, no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes.
- (2) The calculation is made assuming that the Over-allotment Option is not exercised, none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares (which are Class A Ordinary Shares with one vote per share), no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, no Class B Ordinary Shares are converted into Class A Ordinary Shares and without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans. The percentage takes into account the weighted voting rights of the Class B Ordinary Shares, which carry 10 votes per share in relation to resolutions at the general meetings of the Company.
- (3) The exercise period of the options granted shall commence from the date on which the relevant options become vested and ended on the expiry date, subject to the terms of the relevant Share Incentive Plan and the share option award agreement signed by the grantee.

The table below shows the details of the outstanding options granted to other grantees (who are not Directors or members of the senior management or connected persons of the Company) under the 2019 Plan:

| Category by number of underlying Class A Ordinary Shares | Number of grantees | Date of grant | Expiry date | Vesting period ⁽³⁾ | Exercise price per Class A Ordinary Share (US\$) | Number of Class A Ordinary Shares outstanding | Approximate % of issued shares immediately after completion of the Global Offering ⁽¹⁾ | Approximate % of voting rights immediately after completion of the Global Offering ⁽²⁾ |
|--|---------------------|-------------------------------------|---------------------------------------|-------------------------------|--|---|---|---|
| | | | | | | | | |
| 500,001 to 750,000 | 2 | December 1, 2019 | July 1, 2027 to January 1, 2028 | 5 years | 0.10 | 1,200,000 | 0.06% | 0.02% |
| 250,001 to 500,000 | 11 | December 1, 2019 to July 1, 2020 | November 2, 2025 to July 1, 2030 | 3-5 years | 0.10 | 3,500,000 | 0.17% | 0.07% |
| 1 to 250,000 | 281 | December 1, 2019 to January 1, 2021 | September 14, 2021 to January 1, 2031 | 1-5 years | 0.10 | 15,693,578 | 0.76% | 0.31% |
| Subtotal: | 294 grantees | | | | | 20,393,578 | 0.99% | 0.40% |

Notes:

- (1) The calculation is made assuming the Over-allotment Option is not exercised, no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes.
- (2) The calculation is made assuming that the Over-allotment Option is not exercised, none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares (which are Class A Ordinary Shares with one vote per share), no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, no Class B Ordinary Shares are converted into Class A Ordinary Shares and without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans. The percentage takes into account the weighted voting rights of the Class B Ordinary Shares, which carry 10 votes per share in relation to resolutions at the general meetings of the Company.
- (3) The exercise period of the options granted shall commence from the date on which the relevant options become vested and ended on the expiry date, subject to the terms of the 2019 Plan and the share option award agreement signed by the grantee.

The table below shows the details of the outstanding options granted to other grantees (who are not Directors or members of the senior management or connected persons of the Company) under the 2020 Plan:

| Category by number of underlying Class A Ordinary Shares | Number of grantees | Date of grant | Expiry date | Vesting period ⁽³⁾ | Exercise price per Class A Ordinary Share (US\$) | Number of Class A Ordinary Shares outstanding | Approximate % of issued shares immediately after completion of the Global Offering ⁽¹⁾ | Approximate % of voting rights immediately after completion of the Global Offering ⁽²⁾ |
|---|---------------------------|--|--|----------------------------------|---|---|--|--|
| 250,001 to 500,000 | 15 | January 1, 2021, July 1, 2021 | January 1, 2031 to July 1, 2031 | 2-5 years | 0.10 | 4,590,000 | 0.22% | 0.09% |
| 1 to 250,000 | 1,865 | January 1, 2021, July 1, 2021 | September 6, 2021 to July 1, 2031 | 1-5 years | 0.10 | 27,193,500 | 1.33% | 0.53% |
| Subtotal: | 1,880 grantees | | | | | 31,783,500 | 1.55% | 0.62% |

Notes:

- (1) The calculation is made assuming the Over-allotment Option is not exercised, no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes.
- (2) The calculation is made assuming that the Over-allotment Option is not exercised, none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares (which are Class A Ordinary Shares with one vote per share), no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, no Class B Ordinary Shares are converted into Class A Ordinary Shares and without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans. The percentage takes into account the weighted voting rights of the Class B Ordinary Shares, which carry 10 votes per share in relation to resolutions at the general meetings of the Company.
- (3) The exercise period of the options granted shall commence from the date on which the relevant options become vested and ended on the expiry date, subject to the terms of the 2020 Plan and the share option award agreement signed by the grantee.

The table below shows the details of the outstanding RSUs granted to a grantee (who is not a Director or member of the senior management or connected person of the Company, and was an external consultant who provided technology consultation to the Group) under the 2020 Plan:

| Number of grantees | Date of grant | Vesting Period | Number of Class A Ordinary Shares outstanding | Approximate % of issued shares immediately after completion of the Global Offering ⁽¹⁾ | Approximate % of voting rights immediately after completion of the Global Offering ⁽²⁾ |
|-----------------------|------------------|----------------|--|--|--|
| 1 | July 1, 2021 | 3 years | 8,586 | 0.00% | 0.00% |
| Subtotal: | 1 grantee | | 8,586 | 0.00% | 0.00% |

Notes:

- (1) The calculation is made assuming the Over-allotment Option is not exercised, no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes.
- (2) The calculation is made assuming that the Over-allotment Option is not exercised, none of the Performance Conditions is met and no Award Premium is paid in respect of any CEO Award Shares (which are Class A Ordinary Shares with one vote per share), no further Shares are issued under the Share Incentive Plans or pursuant to the conversion of the 2028 Notes, no Class B Ordinary Shares are converted into Class A Ordinary Shares and without taking into account the voting rights attached to the 32,957,578 Class A Ordinary Shares (as of the Latest Practicable Date) issued to the Depositary for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plans. The percentage takes into account the weighted voting rights of the Class B Ordinary Shares, which carry 10 votes per share in relation to resolutions at the general meetings of the Company.

4. The 2021 Plan

Summary

The following is a summary of the principal terms of the 2021 Plan of the Company as approved by the Board on March 8, 2021. The 2021 Plan does not involve the grant of any share options after Listing and is not subject to the provisions of Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the 2021 Plan is to secure and retain the services of valuable employees, directors, or consultants and provide incentive for such persons to exert their best efforts for the success of our business.

(b) Who may join

We may grant awards to directors, consultants, and employees of our company.

(c) Maximum number of Class B Ordinary Shares

The maximum aggregate number of Class B Ordinary Shares which may be issued pursuant to all awards under the 2021 Plan is 108,557,400 Class B Ordinary Shares.

(d) Administration

Our board of directors or a committee of one or more members of the board of directors administers the 2021 Plan. The committee or the board of directors determines, among other things, the participants eligible to receive awards, the type or types of awards to be granted to each eligible participant, the number of awards to be granted to each eligible participant, and the terms and conditions of each award grant.

(e) Awards

The 2021 Plan permits the awards of options, restricted shares, and restricted share unit awards or other types of awards approved by the board of directors.

Awards under the 2021 Plan are evidenced by an award agreement that set forth the terms, conditions, and limitations for each award, which may include the term of the award, the provisions applicable in the event the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel, or rescind the Award.

(f) Terms and conditions of the 2021 Plan

Unless terminated earlier, the 2021 Plan has a term of ten years. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Awards may not be transferred in any manner by the eligible participant other than in accordance with the exceptions provided in the 2021 Plan, such as transfers to our company or a subsidiary of ours, transfers to the immediate family members of the participant by gift, the designation of a beneficiary to receive benefits if the participant dies, permitted transfers or exercises on behalf of the participant by the participant's duly authorized legal representative if the participant has suffered a disability, or transfers to one or more natural persons who are the participant's family members or entities owned and controlled by the participant and/or the participant's family members, including but not limited to the participant's personal special purpose vehicle, trusts or other entities whose beneficiaries or beneficial owners are the participant and/or the participant's family members, or to such other persons or entities as may be expressly approved by the plan administrator.

(g) Exercise of options

The plan administrator determines the exercise price for each award, which is stated in the relevant award agreement. Options that are vested and exercisable will terminate if they are not exercised prior to the time as the plan administrator determines at the time of grant. However, the maximum exercisable term is ten years from the date of grant.

(h) Amendment and termination

Our board of directors has the authority to terminate, amend, add to, or delete any of the provisions of the plan, subject to the limitations of applicable laws. However, no termination, amendment, or modification of the 2021 Plan may adversely affect in any material way any award previously granted pursuant to the 2021 Plan.

CEO Award

The overall limit on the number of underlying Shares pursuant to the 2021 Plan is 108,557,400 Class B Ordinary Shares.

On March 8, 2021, our Company granted an option to purchase 108,557,400 Class B Ordinary Shares to Mr. Li Xiang (the “**CEO Award**”), our Chairman of the Board, executive Director and Chief Executive Officer, under the 2021 Plan. The date of expiration for the CEO Award was March 8, 2031. The exercise price of the options was US\$14.63 per share, which was the average per-share closing price of our ADSs, each representing two Class A Ordinary Shares, in the thirty trading days immediately prior to the grant date, as reported by the Nasdaq Global Select Market. The options were divided into six equal tranches of 18,092,900 each and subject to the same vesting conditions as the Performance Conditions described below.

On May 5, 2021, the Board resolved to change the form of CEO Award from options to an award of 108,557,400 Class B Ordinary Shares, or the CEO Award Shares. The CEO Award Shares were duly issued fully paid to Amp Lee Ltd. (a company legally and beneficially wholly-owned by Mr. Li) as registered legal and beneficial owner on May 5, 2021. On the same day, all of the options granted under the CEO Award (none of which vested or were exercised) were terminated and cancelled. Under the terms of the CEO Award, Mr. Li has agreed that the CEO Award Shares shall be held subject to certain restrictions, terms and conditions. Pursuant to a conversion notice submitted by Mr. Li to the Board dated July 26, 2021 and the written resolutions passed by the Board on July 27, 2021, all CEO Award Shares will be converted from Class B Ordinary Shares to Class A Ordinary Shares on one-to-one basis with effect immediately upon the Listing. For details please see the section headed “Directors and Senior Management—Grant of CEO Award.”

E. OTHER INFORMATION**1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this document and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, (i) the Class A Ordinary Shares in issue and to be issued pursuant to the Global Offering (including the additional Class A Ordinary Shares which may be issued pursuant to the exercise of the Over-allotment Option); (ii) the Class A Ordinary Shares which may be issued pursuant to the Share Incentive Plans; (iii) the Class A Ordinary Shares to be issued pursuant to the conversion of the 2028 Notes; and (iv) the Class A Ordinary Shares that are issuable upon conversion of the Class B Ordinary Shares on the Main Board of the Stock Exchange.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Each Joint Sponsor will receive a fee of US\$250,000 for acting as the sponsor for the Listing.

4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

| Name | Qualification |
|-----------------------------|---|
| Goldman Sachs (Asia) L.L.C. | A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), and type 9 (asset management) of the regulated activities as defined under the SFO |

| Name | Qualification |
|--|---|
| China International Capital Corporation Hong Kong Securities Limited | A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| Han Kun Law Offices | Qualified PRC Lawyers |
| Maples and Calder (Hong Kong) LLP | Cayman Islands attorneys-at-law |
| PricewaterhouseCoopers | Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588) |
| China Insights Industry Consultancy Limited | Industry consultant |

As of the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries and Consolidated Affiliated Entities or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

5. Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

6. Bilingual Prospectus

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Preliminary Expenses

The Company did not incur any material preliminary expenses.

8. Other Disclaimers

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or shares as fully or partly paid otherwise than in cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted, have been paid or are payable in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries; and
 - (iii) taking no account of any Shares which may be taken up under the Global Offering and allotted and issued pursuant to the ESOP, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option and outstanding options under the ESOP or pursuant to the RSU Plan), have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.
- (b) Save as disclosed in this document:
 - (i) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this document;
 - (ii) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
 - (iii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iv) none of the Directors or the experts named in the part headed “—Other information—Consents of experts” above has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (v) there is no arrangement under which future dividends are waived or agreed to be waived;
- (vi) our Company has no outstanding convertible debt securities or debentures;
- (vii) we do not have any issued and outstanding, authorized or otherwise created but unissued debt securities or term loans;
- (viii) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business; and
- (ix) none of the Directors are materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the **GREEN** Application Form;
- (b) the written consents referred to under the section headed “Statutory and General Information—Other Information—Consents of Experts” in Appendix IV; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information—Further Information about Our Business—Summary of Material Contracts” in Appendix IV.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the Accountant’s Report and the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the texts of which are set out in Appendices I and II;
- (c) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021;
- (d) the PRC legal opinions issued by Han Kun Law Offices, our legal advisor as to PRC law, in respect of certain general corporate matters and property interests in the PRC of our Group;
- (e) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor on Cayman Islands law, summarizing the constitution of the Company and certain aspects of the Cayman Islands law referred to in Appendix III;
- (f) the Cayman Companies Act;
- (g) the industry report issued by China Insights Industry Consultancy Limited, the summary of which is set forth in the section headed “Industry Overview”;

- (h) the written consents referred to under the section headed “Statutory and General Information—Other Information—Consents of Experts” in Appendix IV;
- (i) the material contracts referred to in “Statutory and General Information—Further Information about Our Business—Summary of Material Contracts” in Appendix IV;
- (j) the service contracts and the letters of appointment with our Directors referred to in “Statutory and General Information—Further Information about our Directors—Particulars of Directors’ service contracts and appointment letters” in Appendix IV; and
- (k) the terms of the Share Incentive Plans and a list of grantees under the Share Incentive Plans.

