The information and statistics set out in this section and other sections of this document were extracted from the report prepared by CIC, which was commissioned by us, and from various official governmental publications and other publicly available publications. We engaged CIC to prepare the CIC report, an independent industry report, in connection with the **[REDACTED]**. *The information from official government sources has not been independently verified by us or any other parties involved in the* **[REDACTED]**, *or any of our or their respective directors, senior management representatives, advisers or any other persons involved in the* **[REDACTED]** *and no representation is given as to its accuracy.*

SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company founded in Hong Kong and engaged in the provision of professional consulting services across multiple industries, to conduct an analysis and report of the global and China's AI market. We have agreed to pay a fee of RMB500,000 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. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

The information and data collected by CIC have been analyzed, assessed, and validated using CIC's in-house analysis models and techniques. 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 National Bureau of Statistics of PRC, 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 market projections in the CIC Report are based on the following key assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) related key industry drivers are likely to continue driving growth in the AI market during the forecast period, such as advancement of technology and infrastructure, supportive policies, and increasing downstream demands, etc.; and (iii) there will be no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way during the forecast period.

OVERVIEW OF GLOBAL AND CHINA'S AI MARKETS

Definition and development of AI

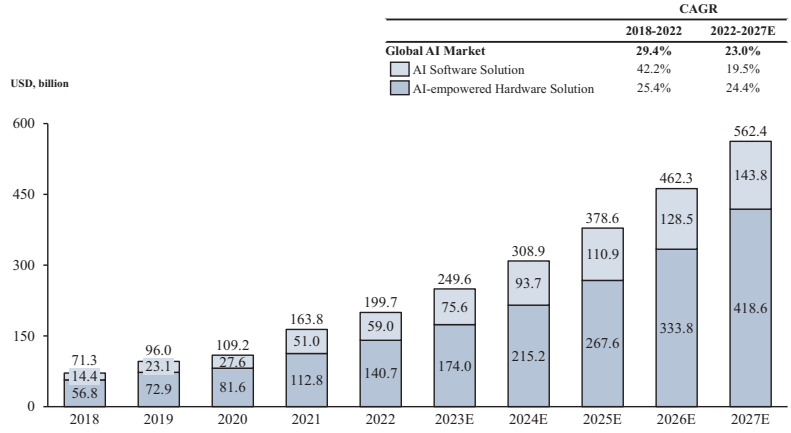
AI is a key application of computer science that enables the machine or system to perform tasks by simulating human intelligence, where the profound integration of software and hardware constitutes the key element of AI technology.

The term AI was first coined in 1956 and it has been continuously advancing with remarkable breakthroughs. In 2006, Geoffrey Hinton proposed Deep Neural Networks as an accelerator of the development of Deep Learning. In 2012, the Association for Computing Machinery further emphasized the significance of Human-Computer Interaction (HCI). In 2017, Transformer architecture was introduced as a fundamental building block for large language models. In 2020, OpenAI proposed the GPT-3 model as one of the most key large language models. In the same year, we leveraged our self-developed AI technology to launch our first AIGC voiceover platform, "Moyin Workshop", which was the first commercial application of AIGC technologies in China. In 2022, the hype explosion of AIGC was highlighted by the advent of ChatGPT and Midjourney. In 2023, Microsoft 365 CoPilot was released to improve productivity and efficiency in the workplace, revealing an inclusive AI-empowered ecosystem.

Market size of the global and China's AI markets

AI has profoundly impacted the global economy and social advancement and has become a global strategic priority. AI solutions can be categorized into AI software solutions and AI-empowered hardware solutions. The market size of the global AI market in terms of revenue has grown from USD71.3 billion in 2018 to USD199.7 billion in 2022, representing a CAGR of 29.4% between 2018 and 2022. The market size is expected to reach USD562.4 billion in 2027, representing a CAGR of 23.0% between 2022 and 2027.

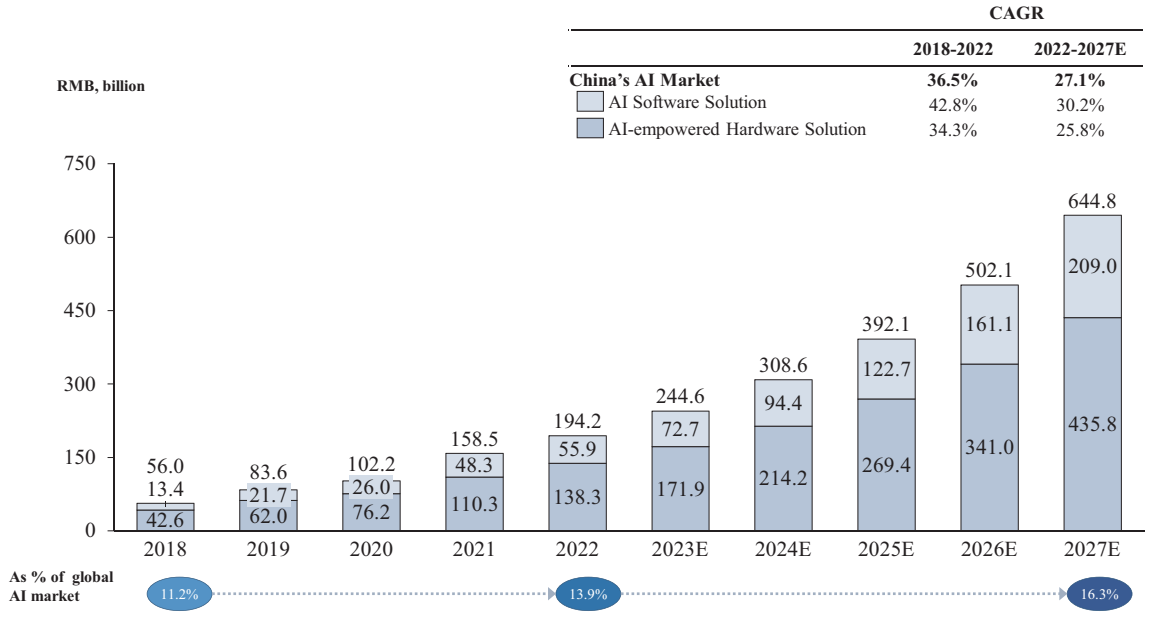
Market Size of Global AI Market, in Terms of Revenue, 2018-2027E



Source: CIC

China is emerging as one of the leaders in the global AI market with its strategic priority of developing AI technologies. According to CIC, the size of the AI market in China in terms of revenue has grown from RMB56.0 billion in 2018 to RMB194.2 billion in 2022, representing a CAGR of 36.5% between 2018 and 2022, and is expected to reach RMB644.8 billion in 2027, representing a CAGR of 27.1% between 2022 and 2027. China's AI market size as a percentage of the global AI market size increased from 11.2% in 2018 to 13.9% in 2022, and is expected to reach 16.3% in 2027.

Market Size of China's AI Market, in Terms of Revenue, 2018-2027E



Note: the market size refers to the revenue of AI companies based in China, from AI software and AI-empowered hardware solutions.

Source: *CIC*

Competitive landscape of AI market

According to CIC, AI solutions contain a diverse category of products and services. The overall AI market in China is fragmented and highly competitive with various players focusing on different sub-sectors. Our Group's revenue in AI reached RMB500.2 million in 2022 and accounted for approximately 0.3% of market share in terms of revenue.

Ranking of the Market Players of AI Market in China, in Terms of Revenue in 2022

Ranking	Company	Description	Revenue[(1)], 2022 (RMB million)	Market Share, 2022
1	Company L.	A listed Internet technology company offering various smart hardware products and Internet services.	17,758.5	9.1%
2	Company M	A listed AI software company with a focus on AI voice and language technologies. It offers smart voice devices and AI voice software solutions.	13,229.4	6.8%
3	Company J	A listed Chinese multinational technology company specializing in Internet-related services and AI.	5,322.2	2.7%
4	SenseTime Group Inc.	A listed AI company with a focus on computer vision technologies. It offers software platforms and hardware products for various downstream sections.	3,808.5	2.0%
5	Company O.	An unlisted AI company specializing in AI for IoT applications. It offers integrated hardware and software solutions.	~2,000.0	1.0%

Notes:

(1) The revenue is related to AI solutions and is estimated based on CIC's internal database and market research.

Source: CIC

Market drivers of AI market

- ***Advancement of AI technology based on generative algorithms***

Generative algorithms such as generative adversarial networks (GANs), transformers, and diffusion models provide a deep learning framework for data training. The advancement of generative algorithms empower AI to become AI CoPilot for professional content creators, enterprises and general users to generate various content and improve productivity.

- ***Increased demand for AI products and services***

Accelerated economic growth and increased per capita income have generated substantial demand for consumption. Personal consumers tend to prioritize user experience and personalization in selecting AI-empowered products and services. Enterprise consumers seek for AI solutions to improve operating efficiency and increase profitability. Meanwhile, digital content as a driving force for economic development will continue to promote the commercialization of AIGC. According to CIC, the number of global and China's content creators reached 305 million and 65 million, respectively, by 2022, and these content creators have strong demands to improve their content productivity. As a result, AI products and services such as AIGC platforms and AI-empowered hardware solutions are continuously gaining popularity in the market.

- ***Advanced infrastructure fuels sufficient computing power***

The development of digital infrastructure including 5G and cloud computing guarantees efficient real-time data processing and lower computing costs. It provides sufficient computing power and economic feasibility for large language model training and generative algorithm optimization.

- ***Supportive policies promote the development of AI***

Recently, China's digital content creation sector has flourished benefiting from the supportive policies for the content creator economy and gradually become a new economic growth catalyst. The national "14th Five-Year Plan" emphasizes the importance of developing the emerging digital industries, including the AI industry, to improve national competitiveness. It proposes a strategic vision for building strength in science and technology with a focus on the promotion of AI through carrying out pioneering and strategic national projects in AI. It highlights the pole position of developing software and hardware and making breakthroughs in key AI algorithms. Furthermore, it clarifies the aim of developing new types of infrastructure to support intelligent upgrades and promote the all-round development of the Internet of Things (IoT). In addition, in July 2022, Ministry of Science and Technology issued the "Guidance on Accelerating Scene Innovation and Promoting High Quality Development of the Economy through High Level Application of Artificial Intelligence" <關於加快場景創新以人工智能高水平應用促進經濟高質量發展的指導意見>, which have promoted the application of AI in various industries, such as manufacturing, agriculture, logistics, finance, and business, so as to enhance industrial intelligent level and national technological competitiveness. This policy encouraged technology companies or relevant authorities to organize creative activities, strengthened business cooperation and technology integration, and created a sustainable ecology for the development of AI industry. Furthermore, in

August 2022, Ministry of Science and Technology further launched the "Notice on Supporting the Construction of New Artificial Intelligence Demonstration Scenarios" <關於支持建設新一代人工智能示範應用場景的通知>, to propel the construction of 10 emerging AI application areas, including smart farms, smart factories, smart homes, smart education, autonomous driving, etc., in order to strengthen the collaboration between technology providers and downstream business segments, and thereby build an innovative AI application ecology.

Future trends of AI markets — Artificial General Intelligence (AGI)

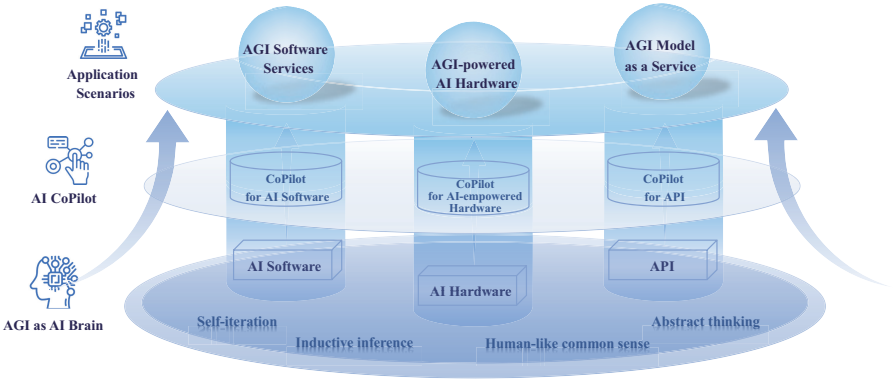
With the breakthrough of cutting-edge AI technologies, AI is undergoing fundamental change. AGI has become the development focus and frontier area of the AI revolution, with versatile processing capabilities in various contexts.

- ***Definition and characteristics of AGI***

AGI is defined as a system that possesses generalized human cognitive abilities to perceive, learn, and carry out intellectual tasks in a variety of different contexts. Features of AGI includes (i) self-iteration, the ability to optimize and iterate itself during the process of solving complex tasks; (ii) inductive inference, the ability to generalize the knowledge and skills gained through previous experience and transform the knowledge from one problem or context to another; (iii) human-like common sense, the ability to perform decision-making process with human-like common sense; (iv) abstract thinking, the ability to achieve abstract thinking through understanding and breaking down abstract concepts.

- ***Application of AGI***

The rapid evolution of AI and digital technologies has propelled AGI to become a main driver in industrial revolution. AGI is able to be commercialized through user-oriented AI CoPilot. The commercial application scenarios of AGI include (i) AGI software service empowering enterprises, professional content creators, and general users; (ii) AGI-powered hardware with strengthened end-to-end connectivity ability which significantly improves user experience; and (iii) AGI model as a service providing Application Programming Interfaces (APIs) which enables different applications to create new revenue streams.



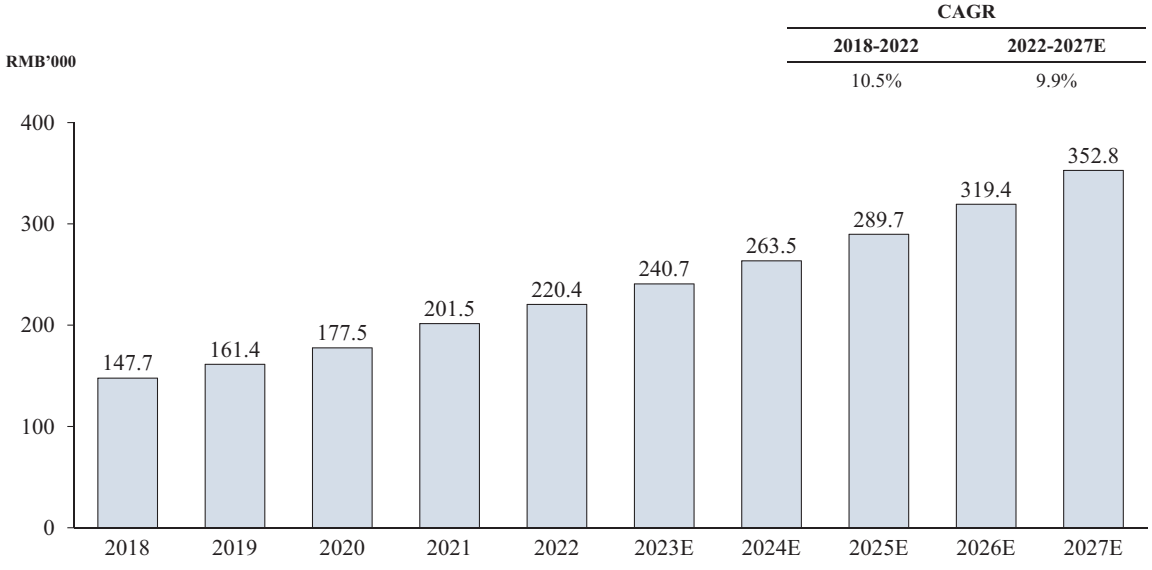
Source: CIC

Historical and forecast trend of major cost in AI solution market

The major raw materials of AI solutions include (i) AI labor force, (ii) AI chips for delivering computational power, and (iii) controller chips as the key components of AI-empowered hardware solutions.

The labor cost of technical staff in China's AI solution industry has been increasing with the enhancement in AI applications and the growing demand for AI talents. According to CIC, the labor cost of technical staff in China's AI market has grown from RMB147,700 in 2018 to RMB220,400 in 2022, representing a CAGR of 10.5% between 2018 and 2022, and is expected to reach RMB352,800 in 2027, representing a CAGR of 9.9% between 2022 and 2027.

Average Annual Cost of Technical Staff in China's AI Market, 2018-2027E

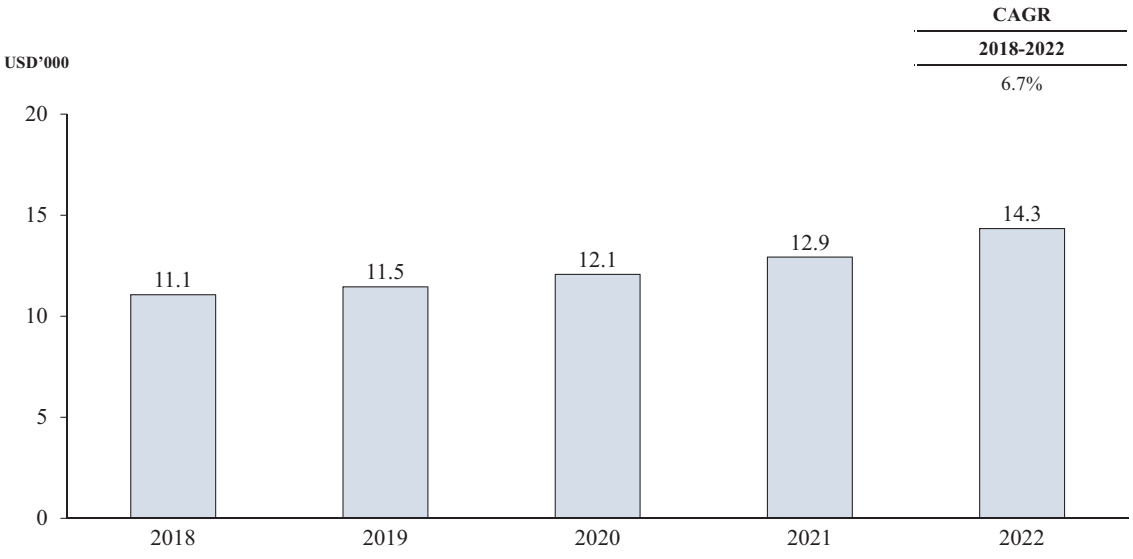


Note: The average annual cost of technical staff in China's AI market is derived based on the average annual salary of China's IT staff.

Source: *CIC*

The average unit cost of AI chips for computational power in global AI market has been increasing due to the growing demand for training and iterating AI models. The average unit cost of AI chips for computational power in global AI market has grown from USD11,100 in 2018 to USD14,300 in 2022, representing a CAGR of 6.7% between 2018 and 2022.

Average Unit Cost of AI Chips for Computational Power in Global AI Market, 2018-2022

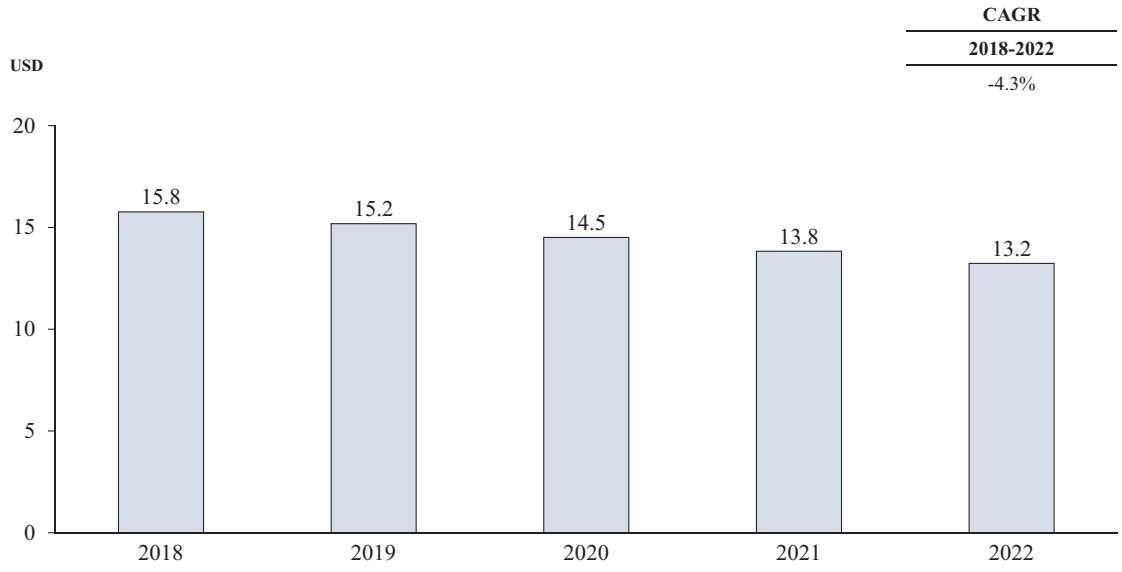


Note: The average unit cost of AI chips for computational power is derived based on the average unit cost of Graphic Processing Unit (GPU).

Source: *CIC*

The average unit cost of controller chips for AI-empowered hardware solutions in global AI market has been gradually declining due to the price competition among various global controller chip market players. The average unit cost of controller chips for AI-empowered hardware solutions in global AI market has decreased from USD15.8 in 2018 to USD13.2 in 2022, representing a CAGR of -4.3% between 2018 and 2022.

Average Unit Cost of Controller Chips for AI-empowered Hardware Solution in Global AI Market, 2018-2022



Note: The average unit cost of controller chips for AI-empowered hardware solution is derived based on the average unit cost of the controller chips of major AI-empowered hardware.

Source: *CIC*

OVERVIEW OF THE AI SOFTWARE SOLUTION MARKET

Definition and classification of AI software solution service

AI software solution uses AI technology to provide AI software and AI software-empowered hardware solutions in numerous industries.

- ***Classification of AI software solution service by technical application***

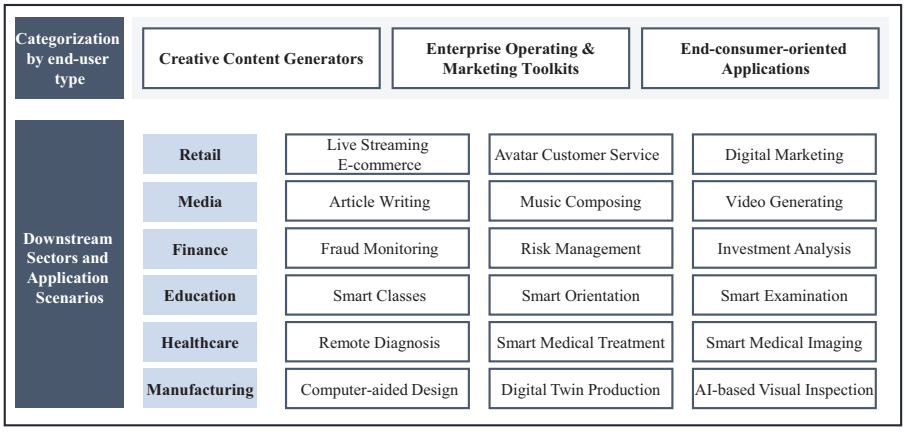
From the perspective of technical applications, AI software can be categorized into computer vision, AI voice and NLP, and data science. AI computer vision software refers to the field of AI that enables software to interpret visual inputs such as images and videos and derive meaningful information for further actions. AI voice and NLP software refers to the field of AI that enables

software to have the ability to process human language in the form of text or voice data and respond to spoken commands. AI data science software refers to the field of AI that enables software to process data, perform data analytics and present insightful information.

- ***Classification of AI software solution service by downstream application scenarios***

AI software solutions can be categorized into (i) creative content generators, (ii) enterprise operating and marketing toolkits, and (iii) end-consumer-oriented applications, based on different end-user types. The major downstream application scenarios of AI software solutions include retail, media, finance, education, healthcare and manufacturing.

Categorization and Downstream Application Scenarios of AI Software Solution



Note:

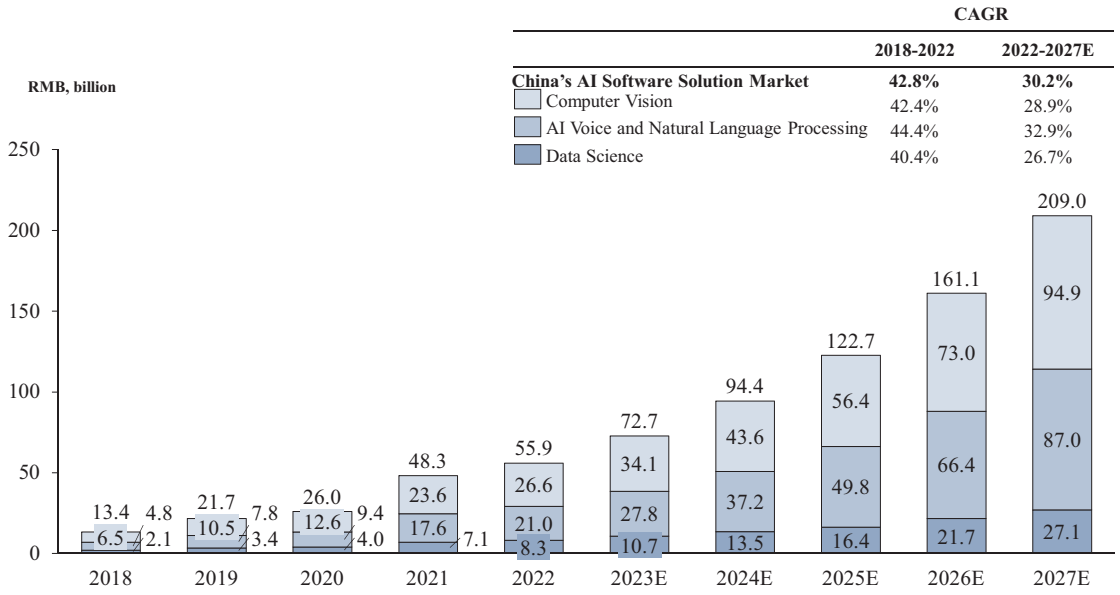
(1) The categories, downstream sectors and application scenarios are selectively listed.

Source: CIC

Market size of the AI software solution industry in China

With the development of computing infrastructure and AI algorithms, the AI software solution market is projected to grow rapidly in the following years. According to CIC, the market size of China's AI software solution market in terms of revenue has grown from RMB13.4 billion in 2018 to RMB55.9 billion in 2022, representing a CAGR of 42.8% between 2018 and 2022. The market size is expected to reach RMB209.0 billion in 2027, representing a CAGR of 30.2% between 2022 and 2027. The following diagram sets forth the historical and forecast size of China's AI software solution market from 2018 to 2027.

Market Size of AI Software Solution Market in China, in Terms of Revenue, 2018-2027E



Note:

(1) The market size refers to the revenue of AI companies based in China, from AI software solution.

Source: CIC

Competitive landscape of AI voice and NLP software solution market

According to CIC, the AI voice and NLP software solution market in China is relatively fragmented. Among the AI companies in China, we ranked 3rd in terms of the revenue derived from AI voice and NLP software solutions in 2022. Our Group's revenue in AI voice and NLP software solutions reached RMB302.9 million in 2022 and accounted for approximately 1.4% of market share in terms of revenue.

Ranking of the Market Players of AI Voice and NLP Software Solution Market in China, in Terms of Revenue in 2022

Ranking	Company	Description	Revenue[(1)], 2022 (RMB million)	Market Share, 2022
1	Company M	A listed AI software company with a focus on AI voice and language technologies. It offers smart voice devices and AI voice software solutions.	4,945.3	23.6%
2	Company P	An AI company with a focus on AI-empowered hardware solutions and AI voice technologies. It offers speech interaction solutions.	429.8	2.0%
3	Our Group	Please refer to "Business — Who we are" in this document.	302.9	1.4%
4	Company Q.	An AI voice technology platform company. It offers speech interaction solutions for enterprises and developers.	298.2	1.4%
5	Company R.	An interactive AI solution company. It offers AI software solutions for enterprises.	270.4	1.3%

Notes:

(1) The revenue is related to AI voice and NLP software solutions. Our revenue is derived from AI software solution and based on accountant's report while other competitors' revenue is estimated based on CIC's internal database and market research.

Source: CIC

OVERVIEW OF THE AIGC MARKET

Definition and commercialization of AIGC

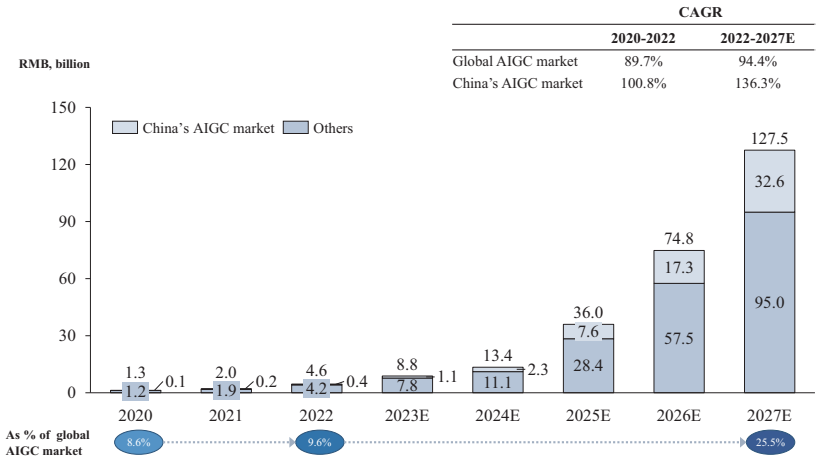
Generative AI technology emerged as an innovative booster in the course of the development of AI software. AIGC is an initiative approach to generate content by generative algorithm models trained on a vast quantity of data to identify underlying characteristics for a variety of tasks. Underpinned by the large language models and substantive user demand, AIGC is expected to become the first breakthrough towards achieving true AGI. AIGC can produce content in diverse modalities, including audio, text, image, video, 3D model, and avatar, which can fulfill various demands from content creators, enterprises and individual users. Currently, AIGC has been commercialized in the field of content creation market for both enterprises' and content creators, and the modalities of audio and text have more application scenarios. With the advancement of large language models and generative AI technology, AIGC has been empowering each sub-sector of AI software and increasingly penetrating the entire AI software solution market.

Market size of global and China's AIGC market

The AIGC market has a large application potential, and it first achieved commercialization in the field of content creation. Along with the increasing number of content creators such as KOLs in various social media channels like short video platforms, the demand for high-quality content creation has been growing rapidly. This growing demand strengthens the importance of content creation platforms to improve the efficiency and quality of content production. According to CIC, the market size of the Global AIGC market in terms of revenue has grown from RMB1.3 billion in 2020 to RMB4.6 billion in 2022, representing a CAGR of 89.7% between 2020 and 2022. The market size is expected to reach RMB127.5 billion by 2027, representing a CAGR of 94.4% between 2022 and 2027.

China's AIGC market is driven by strong market demand and enhanced AI technology. According to CIC, the market size of China's AIGC market in terms of revenue has grown from RMB0.1 billion in 2020 to RMB0.4 billion in 2022, representing a CAGR of 100.8% between 2020 and 2022. The market size is expected to reach RMB32.6 billion by 2027, representing a CAGR of 136.3% between 2022 and 2027. China's AIGC market is a key component of the global AIGC market. China's AIGC market size as a percentage of the global AIGC market size increased from approximately 8.6% in 2020 to 9.6% in 2022, and is expected to reach 25.5% in 2027. Furthermore, with massive factual data for training and the declining cost of computing power, AIGC will be commercialized in other application scenarios for enterprise and consumer usage. According to CIC, the total addressable market of China's AIGC market is projected to surpass approximately RMB100 billion by 2027.

Market Size of Global and China's AIGC Market, in Terms of Revenue, 2020-2027E



Source: CIC

Entry barriers and key success factors in the AIGC market

- ***Robust commercialization capability and clear path to profitability***

The ability to identify customer actual needs and realize commercialization is instrumental for AIGC companies to acquire paying users in a sustainable manner. Currently, China's AIGC industry is in the exploration period of its commercialization. The ability to accurately identify the scenarios with broad commercialization potential, and the ability to obtain and accumulate paying users is the key to successful commercialization.

- ***Training of high-quality data***

Abundant high-quality data obtained from vertical markets and paying users can facilitate the efficiency of training algorithms and significantly optimize models. This ability could continuously enhance the flexibility of content and diversification of models, and enrich the application scenarios. Furthermore, with the further improvement of the user experiences following the continuous technology enhancement, more users will be attracted and ultimately create a data flywheel effect.

- ***Self-developed large language models***

With the increasing application of AIGC technology, the underlying models require continuous innovation and iteration to maintain versatility and be adaptive to various demand of different vertical markets and application scenarios. The ability to self-develop the multimodal large language models to cover diverse user groups is essential for AIGC service providers to maintain core competitiveness in this market. As self-developed capabilities of large language models require sufficient technology, dataset and capital investment, it establishes a high barrier for new market players to enter.

Competitive landscape of global and China's AIGC markets

- ***Competitive landscape of the global AIGC market***

According to CIC, the global AIGC market consists of various AI companies offering different AIGC solutions. Among the major global AI companies that have achieved commercialization in AIGC, we ranked 8th in the global market and 1st in Asia in terms of revenue derived from AIGC products and services in 2022. Our Group's revenue in AIGC solutions reached USD5.7 million in 2022 and accounted for approximately 0.9% of global AIGC market share in terms of revenue.

Top 10 Players of the Global AIGC Market[(1)], in Terms of Revenue in 2022

Ranking	Company	Country	Description	Revenue[(2)] (USD million, 2022)	Market Share[(3)]	Self-developed large language models[(4)]
1	Company A	U.S.	An unlisted AI research and deployment company founded in 2015 and headquartered in San Francisco, California. Its research focuses on reinforcement learning and offers self-developed large language models. It offers generative AI products and services for global users and enterprises.	65-95	12.2%	✓
2	Company B	U.S.	An unlisted AI-based content creation company founded in 2021 and headquartered in Austin, Texas. It offers AI text generative platforms and services for freelancers, marketing teams and enterprises.	55-80	10.3%	✗
3	Company C	U.S.	An unlisted AI-based content creation company founded in 2021 and headquartered in San Francisco, California. It offers AI arts generators for creating images with self-developed large language models.	40-70	8.4%	✓
4	Company D	U.S.	An unlisted AI-based software development company founded in 2017 and headquartered in San Francisco, California. It focuses on both audio and video content creation and editing. It offers all-in-one audio and video editor platforms for media creators.	20-50	5.3%	✗

Ranking	Company	Country	Description	Revenue[2] (USD million, 2022)	Market Share[3]	Self-developed large language models[4]
5	Company E	U.K.	An unlisted AI-based content creation provider founded in 2017 and headquartered in London. It focus on scalable video generation. It offers AI video avatar platforms that create professional videos.	20-30	3.8%	✘
6	Company F	U.K.	An unlisted open-source generative AI company founded in 2020 and headquartered in London. It offers self-developed large language models and focuses on image generation.	15-30	3.4%	✓
7	Company G	U.S.	An unlisted AI-based content creation company founded in 2020 and headquartered in Memphis, Tennessee. It focuses on text generation and offers AI-powered copywriting platforms for business customers.	5-15	1.5%	✘
8	Our Group	China	Please refer to "Business — Who we are" in this document.	5.7	0.9%	✓
9	Company H	U.S.	An unlisted AI-based content creation company founded in 2020 and headquartered in San Francisco, California. It offers AI-powered copywriting platforms for marketing and e-commerce businesses. It specializes in scalable content generation.	3-5	0.6%	✘
10	Company I	U.S.	An unlisted AI-based content creation company founded in 2018 and headquartered in New York. It offers creative platforms to generate and edit image and video content through text descriptions.	2-3	0.4%	✓

Notes:

(1) The AIGC market is mainly applied in the content creation sector.

(2) The revenue is related to AIGC products and services. Our revenue is based on accountant's report while other players' revenue is estimated based on CIC's internal database and market research.

(3) The market share of each competitor is calculated by dividing the arithmetic average of their estimated maximum and minimum revenue by the market size of global AIGC market in terms of revenue.

(4) The information about self-developed large language models is as of the Latest Practicable Date.

Source: CIC

- ***Competitive landscape of the AIGC market in China***

As of the Latest Practicable Date, there were over 300 large language models in training or testing phases that had been launched in China. According to CIC, the AIGC market in China is relatively fragmented with the leading five market participants accounting for a share of approximately 13.8% in terms of revenue. Our Group's revenue in AIGC solutions reached RMB39.9 million in 2022 and accounted for approximately 9.0% of China's AIGC market share in terms of revenue.

With the development of AI technology, the AIGC market may encounter potential price competition in the following years. Leading market players in the AIGC market are able to enjoy the advantage of economic scale, as the cost of training large language models is expected to decrease along with the improvement of computing efficiency, which will lead to the decline of offering price, while for enterprises lacking competitiveness and commercialization capability, they would face intensified price competition and business development challenges.

Ranking of the Market Players of China's AIGC Market[(1)], in Terms of Revenue in 2022

Ranking	Company	Description	The number of commercialized AIGC applications[(2)]	The category of commercialized modalities of AIGC[(2)]	Self-developed voice style transfer technology[(3)]	Self-developed large language models	Revenue[(4)] (RMB million, 2022)	Market Share
1	Our Group	Please refer to "Business — Who we are" in this document.	3	Audio, Text, Video, Avatar	✓	✓	39.9	9.0%
2	Company J	A listed Chinese multinational technology company founded in 2000 and headquartered in Beijing. It specializes in Internet related services and AI. It offers self-developed large language model and generative AI products.	2	Text, Image	✓	✓	12.3	2.8%
3	Company K	A listed software solution provider founded in 2003 and headquartered in Shenzhen, Guangdong. It offers multimedia software, products, and services and AIGC solutions.	5	Image, Video	✗	✗	5.1	1.2%

Ranking	Company	Description	The number of commercialized AIGC applications[2]	The category of commercialized modalities of AIGC[2]	Self-developed voice style transfer technology[3]	Self-developed large language models	Revenue[4] (RMB million, 2022)	Market Share
4	Company S	An unlisted smart solution provider founded in 2009 and headquartered in Shanghai. It offers application software products based on AI technology.	2	Text, Image	✘	✓	2.0	0.5%
5	Company T	An unlisted AI-based content creation company founded in 2021 and headquartered in Shanghai. It offers AI-powered text generative platform.	1	Text	✘	✓	1.5	0.3%

Notes:

(1) The AIGC market is mainly applied in the content creation sector.

(2) The information about self-developed large language models, the number of commercialized AIGC applications, and the category of commercialized modalities of AIGC are as of the Latest Practicable Date.

(3) Voice style transfer technology refers to the generation of a variety of expressive speech while preserving the timbre of the target speaker by migrating the speech style of other speakers to the target speaker who does not possess that style.

(4) The revenue is related to AIGC products and services. Our revenue is based on accountant's report while other competitors' revenue is estimated based on CIC's internal database and market research.

Source: CIC

Future trends of the AIGC industry

- ***Continuous enhancement of AGI capabilities***

With the rapid iteration of the large language model, AIGC is expected to act as an AI CoPilot, that can penetrate various application scenarios and expand to all industry verticals by completing particular skills to all-around problem-solving abilities, indicating strong universal AGI technology capability.

- ***Improvement of cost efficiency of content creation***

AI technology advancements can fundamentally reshape the content creation industry. The AIGC solution will significantly facilitate content creators to improve content quality and cost efficiency in content generating, enlarge content diversity, and maximize creativity value, bringing significant value to the development of the content creation industry.

- ***Building-up forerunning advantages***

Generative AI algorithms require enormous data to solve tasks and optimize models, which is completed through training on large amounts of high-quality datasets. Therefore, early entrants in the market can continuously upgrade their models to stay ahead of competitors and build up forerunning advantages.

- ***Extension of AI market boundary***

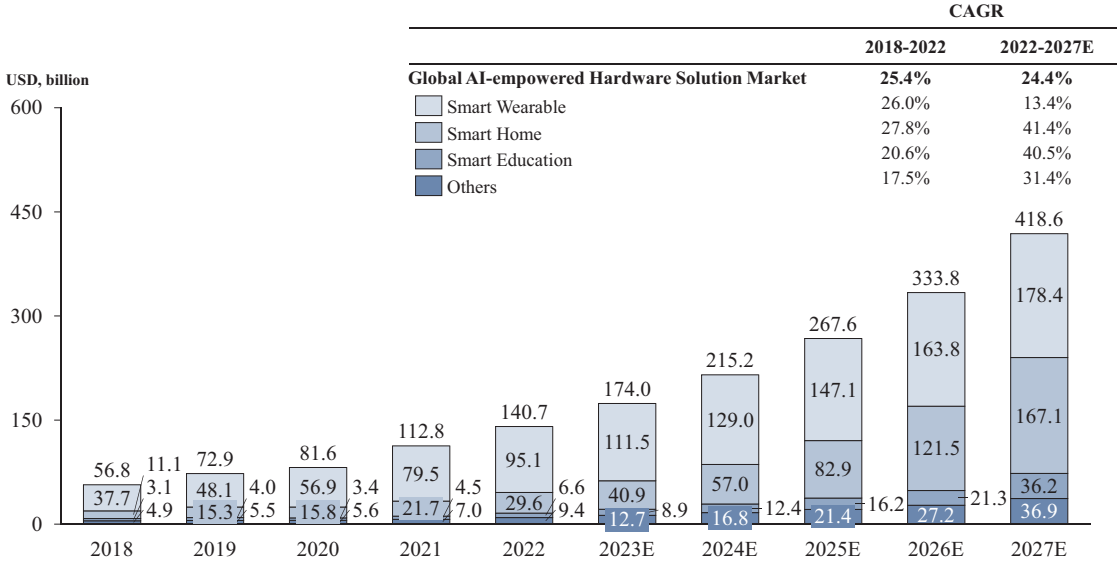
AIGC will significantly drive the AI technology industry to develop rapidly and expand the AI market boundary, by generating new application scenarios and business models.

OVERVIEW OF AI-EMPOWERED HARDWARE SOLUTION MARKET

AI-empowered hardware refers to a diverse category of smart devices that leverage AI technology to have intelligent features. AI-empowered hardware solutions can be categorized into smart wearable solutions, smart home solutions, smart education solutions and others.

According to CIC, the market size of the global AI-empowered hardware solution market in terms of revenue has grown from USD56.8 billion in 2018 to USD140.7 billion in 2022, representing a CAGR of 25.4% between 2018 and 2022, and is expected to reach USD418.6 billion in 2027, representing a CAGR of 24.4% between 2022 and 2027.

Market Size of Global AI-empowered Hardware Solution Market, in Terms of Revenue, 2018-2027E

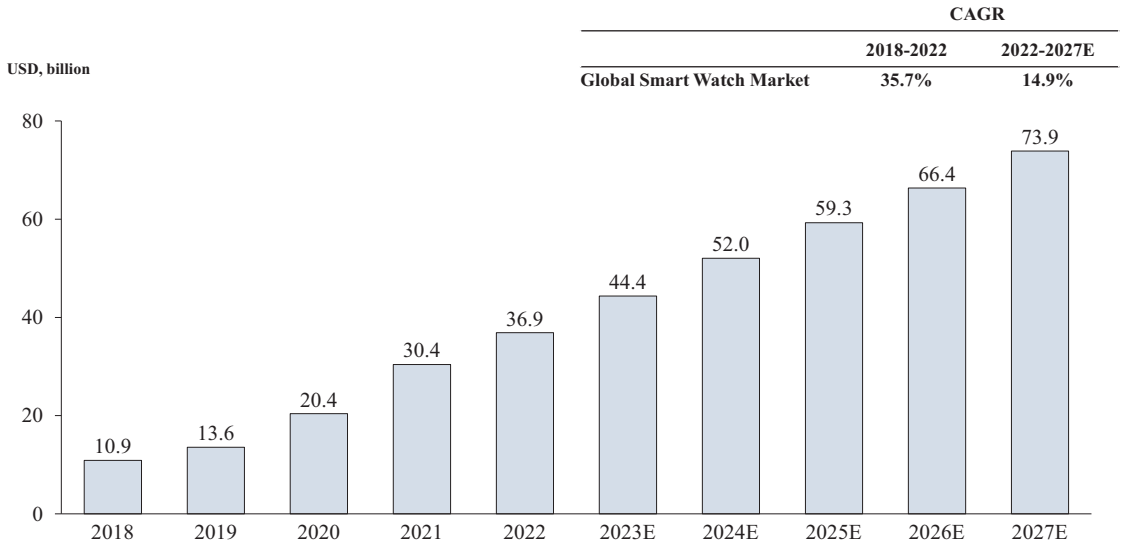


Source: CIC

Market size of the global smart watch industry

The smart watch market is one of the major markets in the global smart wearable market. According to CIC, the market size of the global smart watch market in terms of revenue has grown from USD10.9 billion in 2018 to USD36.9 billion in 2022, representing a CAGR of 35.7% between 2018 and 2022, and is expected to reach USD73.9 billion in 2027, representing a CAGR of 14.9% between 2022 and 2027. The following diagram sets forth the historical and forecast size of the global smart watch market from 2018 to 2027.

Market Size of Global Smart Watch Market, in Terms of Revenue, 2018-2027E



Source: CIC

Global market participants of the AI-empowered hardware solution market

According to CIC, AI-empowered hardware solutions contain a diverse category of products and applications. The global AI-empowered hardware solution market consists of a variety of market players with different business focuses and solution offerings. Part of the global AI-empowered hardware solution market is dominated by several large-sized multinational enterprises and the remaining market is highly fragmented by numerous number of players. Our Group's revenue in AI-empowered hardware solution reached USD28.1 million in 2022 and accounted for approximately 0.02% of global AI-empowered hardware solution market share in terms of revenue.

According to CIC, the global smart watch market is relatively concentrated, with the leading five market participants accounting for approximately 72.7% of the total market in terms of revenue. Our Group's revenue from the smart watch segment accounted for a small portion of the global market.

Top 5 Players of the Global Smart Watch Market, in Terms of Revenue in 2022

Ranking	Company	Country	Description	Revenue[1] (USD million, 2022)	Market Share
1	Company U	U.S.	A listed information technology company with a focus on personal computers, smartphones, and smart watches.	18,546.2	50.3%
2	Company V	Korea	A listed company specializing in electronic devices. It offers smartphones, smart watches and other smart devices.	4,036.7	10.9%
3	Company W. . . .	China	An unlisted telecommunications company specializing in information and communications technology. It offers various smart devices.	3,603.0	9.8%
4	Company L	China	A listed internet technology company offering various smart hardware products and internet services.	437.0	1.2%
5	Company X	China	An unlisted company with a focus on consumer electronics. It offers various smart devices.	203.8	0.6%

Notes:

(1) The revenue refers to the revenue generated from the sale of smartwatches.

Source: CIC

Future trends of the AI-empowered hardware solution market

- ***Enhanced software-hardware synergy***

The hardware will become more adaptive to algorithms designated for different application scenarios, which facilities a synergistic software-hardware integration and thus ensuring a streamlined and seamless user experience across different AI-empowered hardware.

- ***Improved interaction based on AGI models***

By leveraging cutting-edge AI technologies, AI-empowered hardware solutions will be propelled towards the era of AGI with more generalized ability to realize deeper human-machine interaction. The AI-empowered hardware solutions will become more sensible in perceiving different environments and tasks, and interact with the device owner in brand new way. AI-empowered hardware solution products with high-frequency usage like smart watches will become the main industry growth driver.

Entry barriers and key success factors in the AI-empowered hardware solution market

- ***Well-established brand recognition***

Major players with years of operation in the industry have established good brand recognition. With many players in the AI-empowered hardware solution market, well-established brand recognition is vital for players to accumulate abundant client resources and maintain a competitive position.

- ***Stabilized supply chain***

A stabilized supply chain ensures the stability of the manufacturing process and business operations. At the same time, upstream supplier resources determine the quality and pricing of AI-empowered hardware products, which are the key elements to attract consumers.

- ***Established distribution channel***

The distribution channels of AI-empowered hardware largely determine the sales volume and consumer experience, among which the sales of smart wearables such as smart watches are particularly dependent on the construction of distribution channels. It is difficult for new entrants to establish global distribution channels that can compete with leading companies in the short term.