BUSINESS

WHO WE ARE

We provide AIGC solutions, AI enterprise solutions, smart devices and accessories with generative AI and voice interaction technologies at the core of our business.

According to the CIC Report, we ranked third in the field of AI voice technologies and NLP software solution[Note 1] with a market share of 1.4% in China in terms of revenue recognized in 2022. On the other hand, in the rapid growing area of AIGC, we are one of the market players in Asia capable of self-building our large language model, "Sequence Monkey", which is equipped with multi-modal generative capability and has an ability to understand and generate humanized text, audios, images and videos. According to the CIC Report, we generated the largest amount of revenue from AIGC solutions among other market players in China[Note 2] in 2022. Furthermore, our revenue from Smart Devices and Other Accessories reached RMB197.3 million (or approximately USD28.1 million) in 2022, accounting for a market share of 0.02% of the global AI-empowered hardware solution market in terms of revenue.

We are a market player in the development of AI CoPilot in Asia through providing personalized AI assistants with voice interaction and content generation technologies to help users complete various tasks in work and life. Leveraging our voice interaction capability and our large language model with multi-modal generative capability, "Sequence Monkey", we are committed to providing AI CoPilot experience by integrating AI technology, innovative solution and commercialization capability through various software and hardware solutions to content creators, enterprises and consumers around the globe.

In 2020, we developed UCLAI, which has the ability to understand and generate text, and based on this, we introduced the upgraded version, "Sequence Monkey", in 2023. Compared with "UCLAI", "Sequence Monkey" has the ability to generate image, 3D content, speech and speech recognition in addition to text. Further, "Sequence Monkey" has the capability to train with more data and tackle more complex tasks than "UCLAI".

Notes:

1. In 2022, the AI voice and NLP software solution sub-market accounted for 37.5% of the AI software solution market, which accounted for 28.8% of China's AI market, both in terms of revenue.

2. In 2022, the size of China's AIGC market in terms of revenue was RMB0.4 billion, which accounted for 0.2% of China's AI market of the same year.

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Before launching Sequence Monkey, some of our AIGC solution matrix such as "Moyin Workshop", "Mozhuan Writing" and "Weta365" were built using exclusive algorithm models, each of which had its own modality and each modality has a distinct model for (i) speech recognition and synthesis, (ii) image recognition and generation, (iii) text understanding and generation, and (iv) digital avatar generation. In such cases, the maintenance of multiple models for each modality (for example, audio, images and text) incurred large amount of research and development expenses and the independence of models might affect the performance of subsequent tasks by a poor performing node in the pipeline. With the integration of Sequence Monkey into a multi-modal large language model in 2023, our research and development with regard to algorithms became more concentrated and cross-modal information loss due to consolidation within a single model has been largely reduced.

The below table summarizes the models or exclusive algorithm models used to develop the relevant AIGC solution matrix before and after the launching of "Sequence Monkey" and the advantages of utilizing "Sequence Monkey":

	AIGC solution matrix		
	Moyin Workshop	Mozhuan Writing	Weta365
Models used before the launching of "Sequence Monkey" in 2023	Exclusive algorithm models for (1) TTS and (2) ASR	UCLAI	Exclusive algorithm models for (1) TTS; (2) digital avatar generation; and (3) computer vision (CV)
Model used after the launching of "Sequence Monkey" in 2023	Sequence Monkey	Sequence Monkey	Sequence Monkey
Benefits of utilizing "Sequence Monkey" over "UCLAI" or exclusive algorithm models . .	Prosody and naturalness of synthetic speech have been greatly improved. Content creators can now utilize AI writing (which was launched in May 2023) in the context of short videos (including editing and rewriting in different styles), making it more convenient to content creators.	More AI writing templates (such as slogans and adverts) are available for content creators and the quality and skills with regard to AI writing have been greatly improved.	Prosody and naturalness of synthetic speech have been greatly improved. Digital avatars will have more natural expressions and their mouth movements are more synchronized. Efficiency of video creation is enhanced. For example, avatar presentations can be generated simply based on a PowerPoint script.

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Since our Group was incorporated and up to the Latest Practicable Date, we had recorded more than 14 million users globally covering content creators, enterprises and consumers. The figure comprised approximately 9.9 million cumulative registered users of our AIGC solutions, approximately 2.6 million users of the in-vehicle speech dialogue system developed under our joint venture contract with Automotive Sub A, and our historical number of smart devices sold of approximately 2.4 million. For the years ended December 31, 2021, 2022 and 2023, we recorded 2.8 million, 4.6 million and 4.2 million[Note 3] users, respectively. Under content creators related scenarios, we are dedicated to providing high-quality AI voiceover solutions globally with our AI voiceover assistant, "Moyin Workshop" and our integrated AIGC solutions, "DupDub". We had recorded over nine million users for our AIGC solutions worldwide since 2020. For the years ended December 31, 2021, 2022 and 2023, we recorded approximately 1.5 million, 3.0 million and 4.0 million users on our AIGC platforms, respectively. Meanwhile, under enterprise-related scenarios, we had pre-installed our automotive voice interaction solutions in more than two million vehicles since 2020. Under consumer-related scenarios, we had accumulated sales of more than one million pieces of our smart devices since 2020.

Our business segments consist of (i) AI Software Solutions, which comprise AIGC solutions and AI enterprise solutions; and (ii) Smart Devices and Other Accessories. We began to provide AIGC solutions in 2020, AI enterprise solutions in 2017 and Smart Devices and Other Accessories in 2015. We started to develop our AI CoPilot technology in 2023. For the years ended December 31, 2020 and 2021, we generated revenue primarily from the sale of Smart Devices and Other Accessories, which accounted for 83.0% and 85.0% of our revenue, respectively.

WHAT MAKES US DIFFERENT

We have accumulated deep understanding and foresight on the frontier of AI technologies. Leveraging our multi-modal large language model, "Sequence Monkey", we empower global content creators, enterprises and consumers with modularized AI CoPilot technologies. This creates a user-in-the-loop AI ecosystem enabling reinforcement learning from human feedback. We feed our technology modules with high-quality human-machine interaction generated from users, especially paying users, which empowers us to achieve high-quality and rapid iteration of our


Note:

3. Upon our disposal of Mobvoi JV in 2022, the tracking of the number of users of our in-vehicle speech dialogue system was discontinued.

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model, "Sequence Monkey" and other vertical modules, thereby ultimately attracting a broader range of users. The following diagram illustrates our technologies, solutions and commercialization capabilities that backbone our competitive edges:
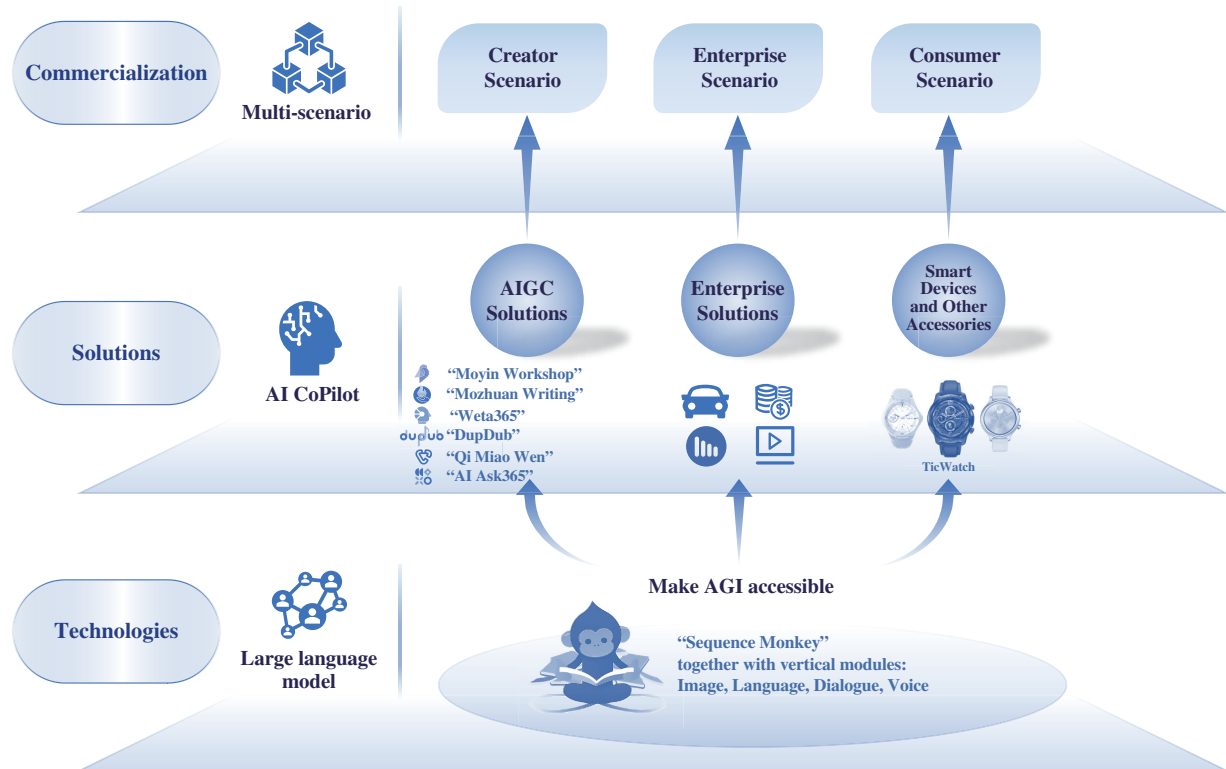
Technologies: With our multi-modal large language model, "Sequence Monkey", at the core of our underlying technological capabilities, we are capable of providing constant support and upgrade to our solutions. Our advanced voice interaction and image generation technologies enable us to provide the AI solutions well-tailored to different scenarios.
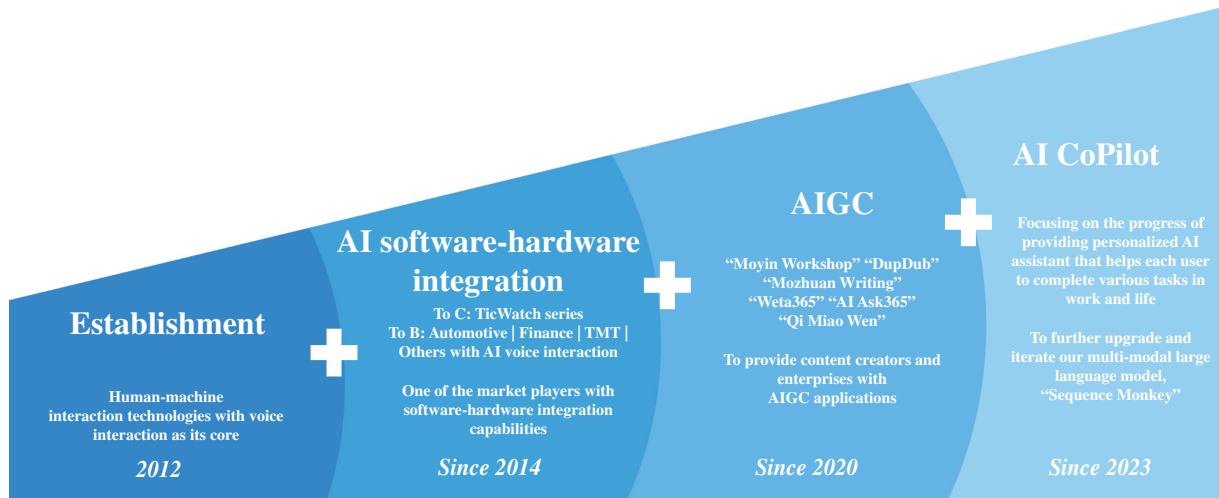
Solutions: We are capable of providing unique AI-empowered solutions designed to meet a broad range of needs from content creators, enterprises and consumers. As of the Latest Practicable Date, our AIGC solutions, including "Moyin Workshop" and other solutions, had successfully attracted approximately 840,000 cumulative paying users and achieved over one million payments since the launch of the solutions. TicWatch E3, one of our smart devices, has been awarded the 2021 Platinum Winner of the Muse Design Awards. Our TicWatch S2, TicWatch E2 and TicWatch C2, have also been awarded the 2019 Red Dot Award.

Commercialization: We have a deep understanding of the commercialization of AI technologies. Apart from project-based revenue generating model, we have developed various revenue generating formats, such as subscription, IP rights arrangements and software-hardware integrated solutions. Leveraging our user-in-the-loop AI ecosystem, we focus on the iteration of our solutions and aim to achieve product-led growth instead of through traditional marketing campaigns.

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WHERE WE CAME FROM

Since our establishment, we have put in place a core technology research and development team that is committed to defining the next generation of human-machine interaction. In 2013, we developed a voice search engine from scratch, which entailed the development of ASR, TTS and NLP, being the early form of AI CoPilot. Over the years, with our prominent voice recognition technologies, distinctive voice-based interactive software-hardware integration capability and robust AI research and development abilities, we have developed our smart devices to provide AI interactive experience for consumers. We have then further expanded the application of our technologies to enterprise scenarios by providing AI CoPilot experience with voice interaction and content generation technologies at its core to enterprises in automotive, finance, TMT and others such as healthcare and retail industries. In the meantime, we have accurately captured the opportunities presented by the latest global AI trends to iterate and upgrade our core technologies. We were one of the notable companies to identify the trend of large language model. As early as 2020, we developed our large language model, "UCLAI", and vertically optimized technology modules, and subsequently developed prominent AIGC technologies and application specifically for our global content creators and enterprises. In 2023, an upgraded version, "Sequence Monkey", which possesses the capabilities in natural language processing and generation, was launched making it a versatile tool for understanding text, generating content, engaging in dialogue, performing logical operations, and leveraging its trained knowledge base to provide global content creators, enterprises and consumers with information and insights.

AI CoPilot

Focusing on the progress of providing personalized AI assistant that helps each user to complete various tasks in work and life

To further upgrade and iterate our multi-modal large language model, "Sequence Monkey"

Since 2023

AIGC

"Moyin Workshop" "DupDub" "Mozhuan Writing" "Weta365" "AI Ask365" "Qi Miao Wen"

To provide content creators and enterprises with AIGC applications

Since 2020

AI software-hardware integration

To C: TicWatch series
To B: Automotive | Finance | TMT | Others with AI voice interaction

One of the market players with software-hardware integration capabilities

Since 2014

Establishment

Human-machine interaction technologies with voice interaction as its core

2012

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WHAT DO WE OFFER

AI Software Solutions

To content creators:

We are dedicated to empowering content creation by providing AIGC solutions around the world. As of the Latest Practicable Date, we had attracted approximately 840,000 cumulative paying users for our AIGC solutions and achieved over one million payments since the launch of the solutions. As of the Latest Practicable Date, we had built our AIGC solution matrix enabling content creators to achieve efficient content generation:

- *AI voiceover assistant:* "Moyin Workshop" — provides high-quality AI voiceover solutions, serving millions of users, especially video creators, worldwide as of the Latest Practicable Date.

- *AI writing assistant:* "Mozhuan Writing" and "Qi Miao Wen"[Note 4] — offer distinguished AI written content generation solutions.

- *AI avatar:* "Weta365" — provides AI video generation and virtual live streaming solutions.

- *Integrated solutions:* "DupDub" — provides high-quality AI voiceover solutions, distinguished AI written content generation solutions and AI Avatar generation.

To enterprises:

Leveraging our strong software-hardware integration capability and voice interaction technologies, we are able to customize AI Software Solutions for enterprises from automotive, finance, TMT and others such as healthcare and retail industries, for instance:

- *AI voice interaction solutions:* With comprehensive interaction as foundation, we offer humanized and intelligent AI voice interaction solutions to various industries including automotive and finance industry. Software solutions include voice-interacted in-car

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Note:

4. After the launch of "Qi Miao Wen", content creators will gradually be guided from "Mozhuan Writing" to "Qi Miao Wen". As such, we anticipate that the number of subscriptions in relation to "Mozhuan Writing" will decrease whilst there would be an increase in the user subscription rate of "Qi Miao Wen", although there is no expected timeframe or any anticipated schedule for the replacement as of the Latest Practicable Date.

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control which help achieve phone call answering, navigation, weather checking, hotel booking functions, through default or personalized hot words, and AI anti-fraud solution to the enterprises we serve to prevent theft and falsification. Additionally, enterprise solutions may also be provided to enterprises with AI software-embedded hardware to further cater to the highly customized demand of the enterprises we serve.

- *Intelligent customer service solutions:* We apply intelligent voice interaction technologies into customer service scenarios to reduce costs and increase operating efficiency. For instance, our intelligent customer service solutions can perform AI customer service, make callbacks, and provide humanoid responses.

During the Track Record Period, our revenue and financial performance were significantly contributed by the IP rights arrangement project with Automotive Sub A which commenced in October 2021 and from which we generated revenue of RMB3.2 million, RMB213.0 million and RMB138.8 million, accounting for 0.8%, 42.6% and 27.4% of our total revenue in 2021, 2022 and 2023, respectively. The said IP rights arrangement project was completed in June 2023.

The accomplishment of the IP rights arrangement project with Automotive Sub A is a significant value-adding milestone for our Group to strengthen and expand such a profitable business model. It serves as a successful precedent for our Group to market our IP rights arrangement business, in particular, opens up the opportunity for us to cooperate with other companies from the automotive industry.

In January 2023, leveraging our expertise in the industry, we started our IP rights arrangements with a new automotive customer, namely, a technology development subsidiary of a PRC domestic automotive group. We provided IP rights and technologies to the said automotive customer, from which we generated revenue of RMB4.0 million in 2023. We completed in late 2023 our performance obligations under the IP rights arrangements, namely, delivering the deliverables that satisfied the requirements of this new automotive customer. In December 2023, we entered into another contract, with a contract sum of RMB1.2 million, to continue our cooperation with the same customer and the contract is expected to be substantially completed in 2024.

As of the Latest Practicable Date, our relationship with this new automotive customer was still at its early stage and continuous investment in research and development was required and expected. For this reason, we recorded a gross profit margin of 56% for the IP rights arrangements with this new automotive customer in 2023. For the year ending December 31, 2024, we do not expect the gross profit margin attributable to this new automotive customer to be as high as that achieved in the project with Automotive Sub A.

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We expect to record a decrease in revenue, gross profit and gross profit margin for our AI enterprise solutions in 2024. The revenue contribution by this new automotive customer has been substantially smaller in terms of contract value compared to the project with Automotive Sub A, which was completed in 2023.

For details of the two series of IP rights arrangements, please refer to the paragraphs headed "— Our Solutions — AI Software Solutions — AI enterprise solutions — IP rights arrangements with Automotive Sub A" and "— Our Solutions — AI Software Solutions — AI enterprise solutions — IP rights arrangements with a technology development subsidiary of a PRC domestic automotive group" in this section.

Smart Devices and Other Accessories

We have launched various smart devices, such as AI smart watch — TicWatch series and AI smart treadmill — Mobvoi Home Treadmill Incline. We have gradually applied advanced AI technology in three major human-machine interaction life scenarios of "wearable, automotive and smart homes" through software-hardware integrated devices. Our relevant smart devices can be interconnected by our personal virtual assistant — "Xiaowen":

- *User experience:* Our TicWatch series have been highly recognized with numerous international awards.

- *Strategic cooperation:* We have established in-depth strategic cooperation with a world-leading multinational technology company focusing on search engine technology and a multinational technology corporation that creates semiconductors, software, and services related to wireless technology. Benefiting from the long-term cooperation on multiple projects, we have effectively improved our technological and solution capabilities. As a result, we have developed and maintained a pre-eminent research and development team.

- *Design and algorithms:* Our sport, health algorithms and sensors feed the human-machine interaction to the relative technology modules to achieve constant optimization and efficient iteration. Our iconic "dual-screen and dual-system" design resolves the two major pain points of smart watches: low battery life and low visibility under high bright outdoor conditions.

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INDUSTRY BACKGROUND AND OPPORTUNITIES

In recent years, the iteration of AI technologies has been accelerating, especially in its understanding and reasoning capabilities. It has been recognized that AI has profoundly impacted the global economy and has become a global strategic priority, evidenced by the exponential growth in the market size of AI market in China and worldwide. According to CIC, the market size of the global AI market has grown from USD71.3 billion in 2018 to USD199.7 billion in 2022 and is expected to reach USD562.4 billion in 2027. Meanwhile, the size of the AI market in China in terms of revenue has grown from USD8.0 billion in 2018 to USD27.7 billion in 2022, and is expected to reach USD91.9 billion in 2027. The recent trend for AI is to take transformative steps towards AGI, which is a revolutionary frontier in AI with versatile capabilities in various contexts. For details, please refer to the paragraphs headed "Industry Overview — Overview of global and China's AI markets — Market size of the global and China's AI markets" and "Industry Overview — Overview of global and China's AI markets — Future trends of AI markets — Artificial General Intelligence (AGI)" in this document.

Meanwhile, innovative AI models based on generative algorithms have supported the emergence of AIGC technologies, which enables generative AI to become an initiative approach to generate content apart from the current forms such as user-generated content ("**UGC**") and professionally-generated content ("**PGC**"). Leveraging the increasing popularity of various short video platforms and growing need for more efficient content creation technologies, the AIGC market in China is expected to grow continuously and realize commercialization in various application scenarios. According to CIC, the market size of China's AIGC market in terms of revenue increased 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.

Our technological advantages

Large language models

We are one of the earliest market players in China that focuses on the development of large language models. Since 2020, we have been exploring large language model trainings in Chinese language and have developed our large language model, "UCLAI". We have constructed a large-scale distributed training platform based on large computing power and big data capabilities. In 2023, an upgraded version, "Sequence Monkey", was launched and it established itself as a robust language model capable of supporting image, 3D content, speech generation and speech recognition in addition to text.
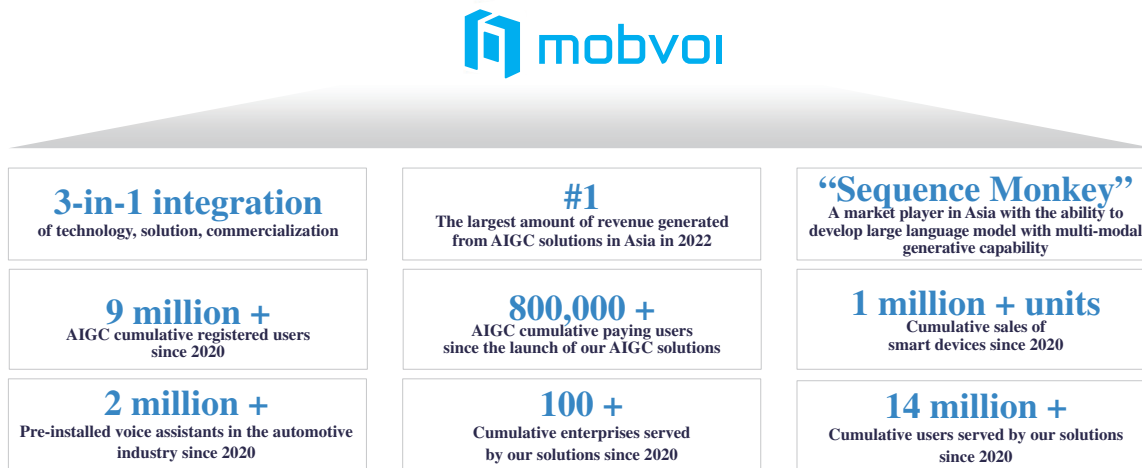
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The development of our AI solutions was founded on our robust research and development capabilities. As of the Latest Practicable Date, we had obtained 681 AI-related intellectual properties in total, including 593 authorized AI-related patents and 88 AI software copyrights.

During the Track Record Period, we had experienced strong growth in revenue and gross profit. The table below set forth our revenue and gross profit from our continuing operations during the Track Record Period:

	For the year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	397,914	500,194	507,060
Gross profit.	149,196	336,151	326,079

The following graph sets forth our operating highlights as of the Latest Practicable Date:

3-in-1 integration
of technology, solution, commercialization

#1
The largest amount of revenue generated from AIGC solutions in Asia in 2022

"Sequence Monkey"
A market player in Asia with the ability to develop large language model with multi-modal generative capability

9 million +
AIGC cumulative registered users since 2020

800,000 +
AIGC cumulative paying users since the launch of our AIGC solutions

1 million + units
Cumulative sales of smart devices since 2020

2 million +
Pre-installed voice assistants in the automotive industry since 2020

100 +
Cumulative enterprises served by our solutions since 2020

14 million +
Cumulative users served by our solutions since 2020

OUR STRENGTHS

Strong large language model capabilities and vertical module technologies

We are a notable market player in the development and commercialization of generative AI model in Asia. According to the CIC Report, we generated the largest amount of revenue from AIGC solutions among other market players in China in 2022. We are also one of the market players in the development of AI CoPilot in Asia, focusing on the progress of providing personalized AI assistant that helps each user to complete various tasks in work and life.

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In 2023, "Sequence Monkey", being an updated version of UCLAI, was launched, providing solid technological foundation for our AI solutions. According to the CIC report, we are one of the market players in Asia capable of building large language model with multi-modal generative capabilities.

Leveraging our experiences accumulated in the past, we have possessed four vertical modules consisting of image, language, dialogue and voice modules through our robust research and technological capabilities:

- The image module possesses image recognition and generation capabilities. By using this module which can accurately analyze the existing images, users can generate high-quality and diverse images;

- The language module possesses language understanding and generation capabilities, allowing in-depth analysis and processing of natural language, and is capable of understanding and processing various linguistic expressions quickly and accurately. In addition, it can also generate high-quality text content on demand, such as, dialogue responses, story composition and advertising scripts;

- The dialogue module enables users to enhance the flow of human-machine conversations, and effectively improves the efficiency and accuracy of conversations. It also allows multiple rounds of conversations and intelligently adjusts the response strategies based on users' feedback and needs; and

- The voice module possesses superior speech-to-text and text-to-speech capabilities, providing highly accurate speech recognition and natural speech synthesis. It supports multiple deployment measures including cloud and embedded deployment. With the advantage of low latency, our voice module brings users a faster response experience. It also supports multiple languages and dialects to accommodate the needs of different regions and scenarios.

Well-established solution matrix of AI-empowered, voice-enabled, end-to-end, and software-hardware integrated solutions to serve diverse customer groups

We are committed to providing AI CoPilot solutions for all types of users, including content creators, enterprises and consumers.

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The concept of AI CoPilot represents the application of AI to optimize user efficiency and elevate the overall user experience through seamless integration of AI-empowered functionalities, including image, language, dialogue and voice modules. It is an application built upon large language models to optimize and elevate users' efficiency and experience.

We are one of the market players to launch all-in-one AIGC platform early in the industry.

- Based on our in-depth understanding of content creation processes, we are one of the market players to launch AIGC creator-oriented solutions early in the industry to promote the content creator economy with the application of AI technologies.

- Our long-term endeavors in AI solutions and technologies enable us to develop AIGC solutions through our modularized technologies and strategically design our solutions effectively. As a result, we have developed an all-in-one AIGC platform, providing distinctive user experiences.

- Our self-developed and middleware-based algorithm architecture system provides great flexibility for the design and development of our solutions. This enables us to efficiently integrate various capabilities of our universal AI platform and to rapidly develop new solutions on application level.

Our well-developed enterprise solutions serve various industry verticals and enable multi-scenario interaction experience.

- We provide enterprises with language interaction experiences and noise reduction algorithms, in different industries such as automotive, finance, TMT and others such as healthcare and retail industries. Empowered by AIGC solutions features, we can deliver exclusive and high-quality API voice services or integrated AI avatar services to enterprises. We are also capable of providing customized AI software-embedded hardware to further cater to enterprises' highly customized demand for software-hardware integrated solutions.

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We provide global consumers with software-hardware integrated Smart Devices and Other Accessories.

- Since our establishment, we have launched Smart Devices and Other Accessories, including AI smart watch — TicWatch series and other AI-empowered hardware products and non-AI products, to the global market, and created a smart devices ecosystem which supports multi-scenario application. We believe smart watch is one of the most important smart devices that enable interaction with users. Embedded with our end-to-end voice interaction capabilities, TicWatch series are our flagship products which are positioned as high-end smart devices. We have carried out continuous iteration and upgrade on our TicWatch series since its launch in 2015, covering value-added applications relating to exercise, health, sleep and watch face. As of the Latest Practicable Date, our TicWatch series had been sold to over 100 countries and regions with cumulative sales of over one million pieces since 2020.

Solid commercialization capabilities of our AI technologies and user-in-the-loop ecosystem

Over the years, we have been focusing on research and development of AI technologies and realizing our commercialization capability.

Since our inception, we have been observing the development of forefront AGI technologies, and thereby seizing the opportunities from the commercially viable AI technologies. In 2020, we launched our first AIGC voiceover platform, "Moyin Workshop," which was the first commercial application of AIGC technologies in China.

Our solutions can cover the needs of content creators, enterprises and consumers, empowering us to identify the suitable paying user groups for our cutting-edge AI technologies, thus enabling the deployment of AI technologies to all scenarios.

Our market position aids us in our business development efforts in terms of variety of scenarios and users. As of the Latest Practicable Date, the number of our cumulative users had reached 12 million since our Company was incorporated.

Since our establishment, we have launched Smart Devices and Other Accessories, including AI smart watch — TicWatch series and other AI-empowered hardware products and non-AI smart devices, in the global market. Leveraging our AI capabilities and experiences accumulated in the consumer scenarios, our strong software-hardware integrated capability, voice interaction technologies and engineering capability, we have accumulated sales of more than one million pieces of smart devices since 2020.

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We have built an open and renowned industry partner ecosystem in the enterprise market. In 2017, we launched an open platform based on our "Xiaowen" virtual assistant, which was utilized by developers and hardware manufacturers. As of the Latest Practicable Date, our intelligent voice interaction SDK including various modules such as hot words triggering, speech recognition, semantic analysis, vertical search and speech synthesis, had provided comprehensive voice interaction functions, enabling developers to create end-to-end AI voice solutions covering smart devices, vehicle, robots, smart homes, and mobile applications and other scenarios. We had also achieved outstanding performance in terms of growth in number of clients from various industries and served over 100 enterprises covering application scenarios such as automotive, finance, TMT and others such as healthcare and retail industries as of the Latest Practicable Date.

Utilizing our existing user base and the interaction and interconnection between our solution matrix, we have developed seamless platform-based services. For instance, "Weta365"'s video streaming solution has built in "Moyin Workshop"'s voiceover function which in turn has "Mozhuan Writing"'s AI writing function embedded to help users input written text. Meanwhile, voiceover files generated via "Moyin Workshop" can be re-extracted to "Mozhuan Writing" for extension and embellishment using its AI-written content generation solution. To enhance users' willingness to pay for our premium services, we have developed multiple customized features. As of the Latest Practicable Date, we had attracted over nine million cumulative registered users being the largest AIGC solutions platform within the creator economy in China.

With extensive human-machine interaction, we are well-positioned to enjoy the effect brought by data and user flywheels. We have been facilitating our users to utilize our AIGC solutions to improve their productivity and efficiency, and at the same time to improve the output quality of our content creation platforms for professional application, thereby enabling us to achieve expansion in customer group.

Well-positioned business exposure with international vision

We have thorough understanding of the importance of global business exposure and the potential value of our AIGC technologies in the global market. Leveraging our success in launching our consumer Smart Devices and Other Accessories business in the global market, together with our global sales team and diversified media resources, our solution-oriented research and development structure enables us to adapt to and launch our services locally in a more rapid and efficient way. As of the Latest Practicable Date, our "Moyin Workshop" and "DupDub" supported over 44 languages which allowed us to provide solutions to content creators in international markets across the world. To facilitate the development of language models encompassing various languages, our Group will initiate the process by either sourcing a comprehensive and representative dataset from the Internet or procuring a commercial dataset from a trusted vendor, both tailored specifically to the target language. Subsequently, the models (such

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as UCLAI and Sequence Monkey) will undergo a meticulous retraining procedure customized to fine-tune their adaptation to the subtleties and intricacies intrinsic to the chosen language. Upon the conclusion of this retraining phase, our Group will conduct a comprehensive evaluation of these refined models, utilizing extensive evaluation sets to gauge their accuracy, fluency, and their ability to faithfully capture the language-specific nuances.

With the extensive experience of our sales and management team, our Smart Devices and Other Accessories have successfully globalized. Since the launch of our first smartwatch, TicWatch 1, in 2015, we have been aiming to establish our presence in the global market. We have launched our consumer solutions worldwide covering primarily North America, Europe and the Asia-Pacific region. Our TicWatch series has received numerous international awards.

We are recognized by international leading partners for our international presence, evidenced by the long history of their cooperation with us. Our prominent Chinese AI semantic interpretation technologies and solutions have enabled us to secure investments from well-known international technology companies and become their long-term strategic partners in China.

Visionary management team and innovative corporate culture

Our founder and chief executive officer, Dr. Li, holds a Doctor of Philosophy degree in computer science at Johns Hopkins University in the United States. He had previously worked as a scientist at Google's headquarters in the United States and is an expert in the fields of machine learning and machine translation. In 2012, Dr. Li founded our Company in China with the aim to develop the next generation of human-machine interaction with voice interaction AI technologies as its core. Led by Dr. Li, we have been continuously focusing on the development of large language model, and in 2020, we were one of the earliest companies in development of large language model. The insight of our management team in AI technologies enables us to lay out accurate research and development directions in advance and to roll out our industry's prominent and full-service matrix.

We adhere to an open and innovative cultural atmosphere, preserving our innovation with engineering culture. Our core research and development team comprises top AI scientists who have accumulated working experience at prominent global technology companies. Our engineers also contains computer science graduates from top-tier universities including Tsinghua University and Peking University. As of the Latest Practicable Date, our team consisted of over 327 staffs, of which 55.0% are from our research and development team.

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OUR STRATEGIES

Continuously improve and enrich our solution matrix

We will continuously improve and enrich our existing solution matrix by developing innovative solutions to meet the diverse and evolving needs of our users. The upgraded solutions are expected to empower content creators, enterprises and consumers by means of the following:

To content creators — connecting the entire content creation process:

- *Enhance features and functions:* We plan to further enhance our AIGC content creator solutions, for instance "Moyin Workshop", "DupDub", "Mozhuan Writing", "Weta365" and "Qi Miao Wen" in terms of comprehension, generation and transformation abilities, to empower content creators with further enhanced efficiency and conversion accuracy. We will also carry out comprehensive upgrade to our content creator platforms continuously and further develop new features and functions. As a result, our AIGC solutions is expected to become more adaptive to specific demands from content creators and thereby equipped us with the ability to assist content creators throughout the entire content creation process with our AIGC solutions.

- *Streamline adaptability to multiple systems:* We will strengthen the adaptability of our AIGC solutions to multiple systems, such as Android, iOS, and mini-programs.

- *Globalization:* We will also enhance our ability of globalization, including continuously upgrading "DupDub" with our latest features and functions, and adopting different languages in our AIGC solutions.

To enterprises — optimizing the capabilities of AI CoPilot in different application scenarios:

- *Embrace the AGI era:* AI CoPilot for enterprises has been meticulously tailored to meet their specific needs, empowering enterprises to enhance their existing repositories of data and product specifications. This enhancement significantly enhances the capabilities of our large language models, improving their responsiveness and competence in delivering informative responses to queries. With iteration on our capabilities in various application scenarios, such as automotive, finance, TMT and others such as healthcare and retail industries, of which AI CoPilot serves as digital labor effectively performing roles such as customer representative, pre-sales support and administrative assistant, we are able to empower enterprises for the challenges in the AGI era.

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- *Expand industry verticals as well as application scenarios:* Leveraging our "Sequence Monkey", a large language model with multi-model generative capability, we are capable of assisting enterprises in performing and completing tasks across multiple industry verticals. With our experiences accumulated from serving enterprises across multiple industry verticals over the years, we will continue to iterate and optimize our AI enterprise solutions, including upgrade of automotive AI assistant and upgrade of bank intelligent customer services with dialogue compatibility. We aim to expand the scenarios to cover new industry verticals such as education and lifestyle, and to further promote AGI technology to all industry verticals.

To consumers — continuous improvement of consumer smart devices:

- *AI CoPilot technologies:* We have equipped our Smart Devices and Other Accessories with AI CoPilot technologies and will continuously invest in the research and development of our human-machine interaction model, aiming to roll out a full-function AI personal virtual assistant which can communicate and interact with users without time or location limit.

- *Software-hardware integration capabilities:* Leveraging our accumulated software-hardware integration capabilities, we will continue to develop new smart devices and accessories, particular focusing on the development of our TicWatch series.

Continuous investment in research and development and optimize capabilities of our multi-modal large language model, "Sequence Monkey"

Continuous upgrade, iteration and optimization of our multi-modal large language model, "Sequence Monkey" to better adapt to user needs by expanding our computing power, including spending on proprietary computing resources and entering into cooperation agreement with leading cloud computing providers. We will also continue to utilize data from various industry verticals through our cooperation with business partners. Leveraging our multimodal AI generation capabilities, we aim to increase the scale, improve the versatility and computational accuracy performance and minimize hallucination error, of our large language model. Hence, the technological infrastructure of our Al CoPilot solution matrix can be enhanced. For details, please refer to the paragraph headed "Future Plans and **[REDACTED]** — **[REDACTED]** — Development of our "Sequence Monkey", a multi-modal large language model" in this document.

We will also continue to invest in other infrastructure and enhance our user-in-the-loop ecosystem. We intend to invest continuously in research and development to remain at the forefront of the AI industry. We intend to utilize the data acquired from various industry verticals during our business operation to accelerate the iteration of our "Sequence Monkey", a multi-modal

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large language model and continuously improve our solutions. We will also perform vertical optimization on the application scenarios. We also intend to upgrades existing program algorithm through recruitment of talents or acquisition of technologies from quality companies.

Further strengthening our commercialization capabilities

Improving our solution quality and monetization structure

We aim to improve our service quality and optimize our solutions and underlying technologies with the goal of attracting more content creators, enterprises and consumers, aiming to achieve product-led growth. Meanwhile, we will focus on enhancing our monetization model by introducing more value-added services and premium features such as additional voice packages and personalized image customization.

Enhancing our marketing capabilities

Leveraging our strong technological know-how and extensive solution offerings, we intend to enlarge our content creators, enterprises and consumer base through enhancing the efficiency of sales and marketing teams and formulation of nimble promotion strategies based on the localized needs of our customers from different regions or venues.

Expand our international reach

We aim to capitalize on our in-depth industry knowledge and experience to further enhance our global business exposure through overseas market expansion.

Further localization in international markets and solution upgrades

We aim to carry out further localization of our AIGC solutions based on local user needs and habits, for example, to equip such solutions with different languages and popular localized platforms, thereby attracting a larger overseas user base. Furthermore, we are planning to upgrade "DupDub".

We also intend to promote our Smart Devices and Other Accessories by expanding the application of our human-machine interaction to other languages for smartwear application platforms, and to upgrade our Smart Devices and Other Accessories for globalization. In addition, we will expand our international enterprise coverage to unlock new business opportunities.

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Attract AI talents to supplement our globalization strategy

Furthermore, we will continue to introduce prominent technologies and recruit AI talents in overseas market with international vision, thereby solidifying infrastructure foundation and resources for the implementation of our globalization strategy.

Pursue strategic cooperation, investments and acquisitions

We will continue to build strategic cooperation with leading companies in the AI industry. We also plan to seek opportunities for strategic cooperation, investments and acquisitions to enhance our technologies and brand awareness, and further solidify our competitive and market position in the AI industry. We believe this will expand our business scale and solidify our competitive position. We will closely monitor upstream and downstream companies that can create synergies with our business. As of the Latest Practicable Date, we had not identified any definite targets for strategic cooperation, investments and acquisitions.

OUR SOLUTIONS

Our position as a market player in the AI industry in China, leveraging our AIGC and voice interaction technologies at the core of our business, has successfully translated into our commercialization capabilities and growth in our solution matrix covering various scenarios. Since our inception in 2012, we have accumulated AI solutions and expertise in the field of NLP and ASR, which have enabled us to develop and expand our innovative solutions over the years. With the integration of our AI technologies and modules into consumer devices, we have launched our Smart Devices and Other Accessories, such as our AI smart watch — TicWatch series, offering consumers with voice-based human-machine interaction. Our TicWatch series has proven the successful application and achievement in commercialization of our AI technologies. Furthermore, we have also extended the application of our AI technologies and introduced AI enterprise solutions to enterprises. Over the years, we have been developing and expanding the application scenarios of our AI enterprise solutions to cover intelligent pre-installed automotive voice interaction solutions as well as other solutions for enterprises in different industry verticals. Leveraging our prominent underlying AI voice technological structure, algorithm and solution integration capabilities and globalized genes accumulated in our Smart Devices and Other Accessories and AI enterprise solutions business, according to CIC, we are one of the first market players in commercializing AIGC technologies in the industry. Since 2020, we have been carrying out rapid iteration and optimization of our AIGC solution matrix and continued to embark on the next generation of human-machine interaction. Our AIGC solutions have proven track record in the market and are widely accepted by customers, especially content creators. Our rapid development, iteration and upgrade of large language model has enabled us to lead in the commercialization of

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our AIGC technologies and to build our AIGC solutions, such as "Moyin Workshop", "DupDub", "Mozhuan Writing", "Weta365" and "Qi Miao Wen" to assist content creators in the entire content creation process.

The following table sets forth our revenue, gross profit and gross profit margin from continuing operations by business line for the years indicated:

	For the year ended December 31,								
	2021			2022			2023		
	Revenue	Gross Profit	Gross Profit Margin	Revenue	Gross Profit	Gross Profit Margin	Revenue	Gross profit	Gross Profit Margin
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
AI Software Solutions............	59,519	37,351	62.8	302,888	284,148	93.8	343,247	290,901	84.7
— AIGC solutions.............	6,822	4,695	68.8	39,857	35,094	88.0	117,605	108,384	92.2
— AI enterprise solutions	52,697	32,656	62.0	263,031	249,054	94.7	225,642	182,517	80.9
Smart Devices and Other Accessories .	338,395	111,845	33.1	197,306	52,003	26.4	163,813	35,178	21.5
Total	397,914	149,196	37.5	500,194	336,151	67.2	507,060	326,079	64.3

The following table sets forth our revenue by geographical locations of end customers for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%
Mainland China	97,191	24.4	290,944	58.2	328,512	64.8
United States	73,683	18.5	55,372	11.1	34,600	6.8
United Kingdom...............................	24,232	6.1	22,430	4.5	15,984	3.2
Italy	50,458	12.7	23,756	4.7	13,754	2.7
Spain	15,047	3.8	11,556	2.3	8,326	1.6
Germany	25,586	6.4	6,417	1.3	33,189	6.5
Japan	14,961	3.8	19,781	4	13,802	2.7
Brazil......................................	7,222	1.8	15,972	3.2	18,435	3.6
Other countries or regions	89,534	22.5	53,966	10.7	40,458	8.1
Total	397,914	100.0	500,194	100.0	507,060	100.0

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Our revenue from Mainland China amounted to RMB97.2 million, RMB290.9 million and RMB328.5 million for the years ended December 31, 2021, 2022 and 2023, respectively, representing 24.4%, 58.2% and 64.8% for the same years. The overall increase in our revenue from Mainland China as a percentage of our total revenue was due to (i) the introduction of our AIGC solutions in 2020 from which more than 99% of our revenue was generated in Mainland China; and (ii) the IP rights arrangements with Automotive Sub A, which commenced in 2021. Automotive Sub A was our largest customer in 2022 and 2023, from whom we generated revenue of RMB3.2 million, RMB213.0 million and RMB138.8 million, accounting for 0.8%, 42.6% and 27.4% of our total revenue in 2021, 2022 and 2023, respectively.

AI Software Solutions

Our AI software solutions consist of AIGC solutions and AI enterprise solutions. Leveraging our voice interaction capabilities and our large language model with multi-modal generative capability, "Sequence Monkey", we serve content creators with our AIGC solutions. We also serve over 100 enterprises from various industries with our AI enterprise solutions.

The following table sets forth our revenue from the segment of our AI Software Solutions by geographical locations of end customers for the years indicated:

	For the year ended December 31,					
	2021		**2022**		**2023**	
	AIGC solutions	**AI enterprise solutions**	**AIGC solutions**	**AI enterprise solutions**	**AIGC solutions**	**AI enterprise solutions**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mainland China	6,822	29,388	39,758	223,287	116,843	204,229
United States	—	15,177	—	24,827	393	10,172
Brazil	—	—	—	3,018	2	7,019
Other countries or regions	—	8,132	99	11,899	367	4,222
Total	**6,822**	**52,697**	**39,857**	**263,031**	**117,605**	**225,642**

AI Software Solutions — AIGC solutions

AIGC solutions is the latest development in the field of content creation which involves the use of AI technologies to assist users to generate content for different application scenarios, such as short videos, social media posts and marketing materials. By replacing basic labor processes, our AIGC solutions enable users to improve their productivity and enhance efficiency in content creation. As one of the market players in development and commercialization of generative AI in

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Asia, we have accumulated profound cutting-edge large language model capabilities which have enabled us to stay ahead in the industry. We are committed to providing AIGC solutions for content creators over the world. As of the Latest Practicable Date, we had built our AIGC solution matrix and created a one-stop content creation suites including, "Moyin Workshop" — our AI voiceover assistant, "Mozhuan Writing" — our AI writing assistant and "Weta365" — our AI avatar. Our AIGC solutions on one hand enables content creators to enhance their video production, livestreaming and content creation capabilities and efficiencies, and on the other hand allows us to achieve a user-in-the-loop ecosystem with human-machine interaction.

The following table sets forth a summary of our key AIGC solutions:

	Moyin Workshop	Mozhuan Writing	Qi Miao Wen	Weta365	DupDub	AI Ask365
Targeted customers .	Content creators and enterprises	Content creators	Content creators	Content creators and enterprises	Content creators	Enterprises
Usage and functions .	An online intelligent voiceover solution that can convert written text into natural voice. It provides voice models of different genders and accents to create voiceovers directly based on the inputted text. It can be applied to short videos and more.	An AI-written content generation solution. Its functions include real-time smart correction and rewording, AI writing, the word dictionary, multilingual translation and text extraction.	An AI-written content generation solution and an upgraded version of "Mozhuan Writing". In addition to the existing features of "Mozhuan Writing", it enables an easier, faster and more accurate interactive process.	A video and live streaming solution with provisions of voice and image clone and 3D avatar personalization.	An overseas integrated version of "Moyin Workshop", "Mozhuan Writing", "Weta365" and "Qi Miao Wen" with the same functions.	A solution for creating AI-empowered digital personnel that possesses NLP capabilities and is able to interact autonomously with audience in a conversational manner.
Average subscription (Note 1) period . . .	14.2 months	2.9 months	2.1 months	9.3 months	8.5 months	12 months
Range of subscription/project period	One month to 24 months	One month to 12 months	One month to 12 months	One month to 12 months	One month to 12 months	12 months

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	Moyin Workshop	Mozhuan Writing	Qi Miao Wen	Weta365	DupDub	AI Ask365
Fee range	Approximately RMB48-999 (Note 2)	Approximately RMB54-408 (Note 2)	Approximately RMB40-326 (Note 2)	Content creators: approximately RMB298-2,499 (Note 2) Enterprises: approximately RMB2,500-1,000,000 per project	Approximately USD15-1,320 (Note 2)	Approximately RMB30,000-670,000 (Note 2)
Fee arrangement . .	Subscription (Note)	Subscription (Note)	Subscription (Note)	Subscription (Note) or contractual payment term	Subscription (Note)	Contractual payment term
Sales and distribution channels	Official website	Official website	Official website	Official website	Official website	Official website

Notes:

1. Average subscription period is calculated by dividing the aggregate subscription period from all orders by the number of paying users over the Track Record Period.

2. The fees and fee arrangements vary depending on the subscription plans selected by our users. We offer one-month, one-year and two-year plans and payment is made prior to the start of the plan period. Users who opt for longer-term plans are charged a lower average monthly rate.

"Moyin Workshop" — Our AI voiceover assistant

In 2020, we built and released our voiceover assistant, "Moyin Workshop". Leveraging our self-developed model, content creators can create voiceovers and other audio-based content through our AI-empowered solutions.

"Moyin Workshop" is a platform for creating AI-generated content by leveraging NLP algorithms to analyze written text and convert the written text into natural voice. It offers more than 1,000 voice styles as well as a diversified portfolio of voice samples sourced from external vendors, and supports 37 languages and 15 dialects. It enables AI-generated content to be customized for different application scenarios, for example, an AI avatar in a video can use "Moyin Workshop" to deliver news or weather updates in a particular accent or tone of voice that the content creator prefers. This would also be beneficial for enterprises with high demand in mass production as written content can be quickly transformed into spoken words without extra recording work, while the audio content is highly editable. As we intend to empower content creators with our prominent technologies, apart from "Moyin Workshop", we have also launched "DupDub" for overseas content creators and an enterprise version which enterprises can deploy

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through API integration. The enterprise version allows users from the same enterprise to interact and cooperate with enterprise functions, for example, collaborative editing, audio sharing, comment, imitation, membership restriction and data management functions. Our "Moyin Workshop" is built with six core functions, (i) software voiceover — Text-to-Speech; (ii) voice actor dubbing; (iii) voice store; (iv) efficient tools; (v) voice cloning; and (vi) video editing:

(i)   Software voiceover — Text-to-Speech
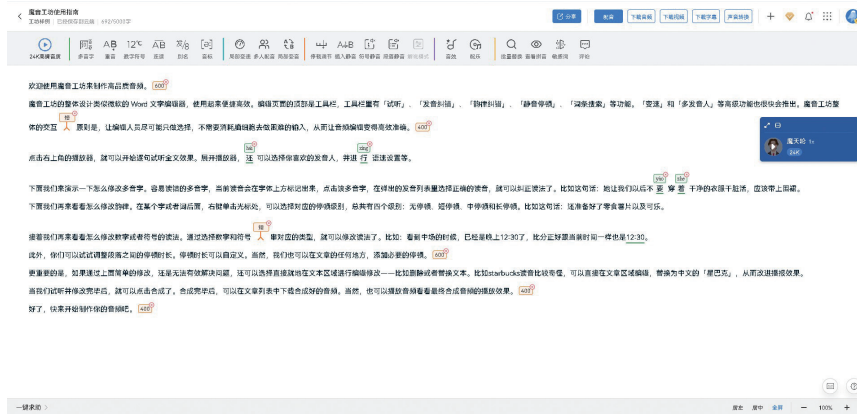
By utilizing the Text-to-Speech function, our users can generate a piece of 24K or 48K high quality audio from text content (maximum 5,000 words) in one go.

Our users can also use the toolbar to edit the text content to adjust the pronunciation of certain words (correcting polyphone, alias, accent) and the speed of the dialogue audio, insert pause between the sentences and insert sound effect and soundtrack in the audio.

(ii)   Voice actor dubbing
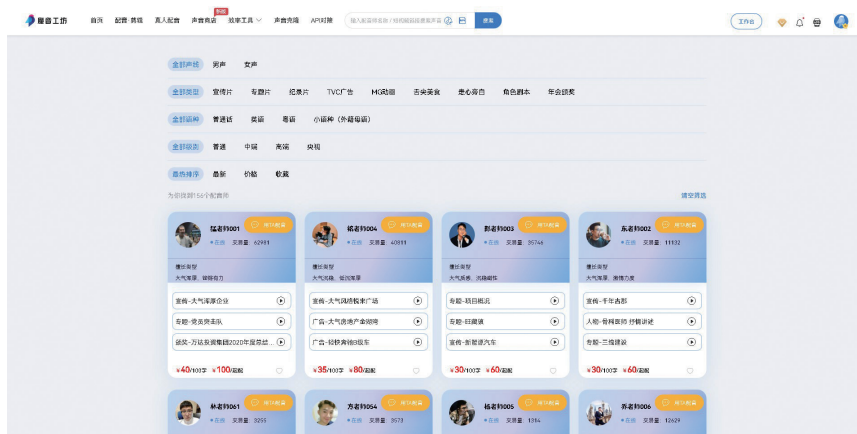
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Users can designate a real-person voice actor on the platform to provide a one-to-one voiceover service on a provided script for genre in advertisement, documentary and featured video in different characters, dialects and languages.

Users can filter out the most suitable voice actor on the platform according to the genre of the video. Voice actors can attend a 10-minute free audition with the user for trial and assessment purpose. After the user has chosen the voice actor, the user will be charged based on the number of words of the script provided by the user.

(iii) Voice store

In the voice store, hundreds of virtual voice models developed on real person voice data are available to users.

Users can first listen to the trial of the voice model in different style, and then decide to purchase for utilizing some particular voice models for a fixed period to make unlimited audio.

The platform can assist users in searching for the most suitable voice model by matching the voice model with users' preference. For example, if a user selects "field — documentary", "tone — gentle", "language — Putonghua", "gender — male", "age — 21-30" and "fee — payment required", the voice store will lead the user to the voice model of "MoWuJi (魔無忌)".

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(iv) Efficient tools
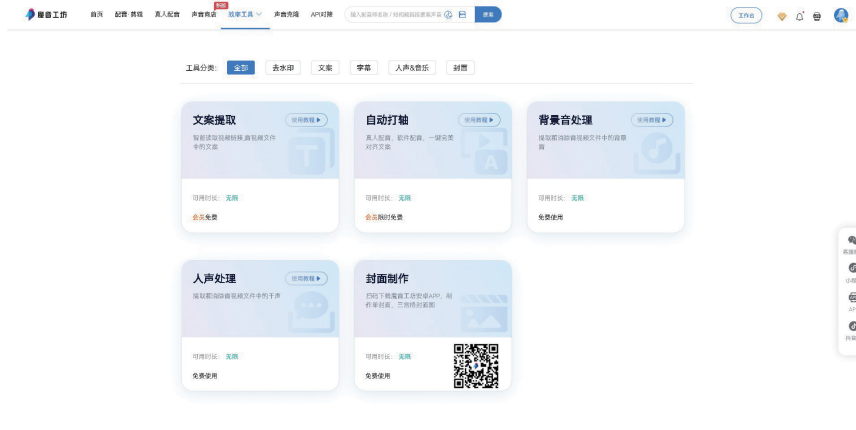
"Moyin Workshop" also provides efficient tools for video editing such as transcript extractor, automatic video timeline fixer, background soundtrack fixer, human voice fixer and thumbnail creator.

For the transcript extractor, users can extract transcript from a video/audio of no longer than 20 minutes in less than two minutes, by either uploading the video/audio file or provide the hyperlink of the video clip from different platforms. The upload of the video/audio file and the provision of a hyperlink will not result in the transfer of ownership. The transcript extractor as of the Latest Practicable Date support hyperlink from more than 20 social media platforms, including Douyin, Kuaishou, Xiaohongshu and Bilibili. To enhance the accuracy of the transcript, users can also provide the name of the video and the language of the audio.

Our background soundtrack fixer allows users to upload the video/audio file of no longer than 10 minutes to extract the background soundtrack from the audio or remove the background/main soundtrack from the video.

Our human voice fixer allows users to upload the video/audio file of no longer than 10 minutes, to extract the human voice soundtrack from the audio or remove the human voice soundtrack from the video.

(v) Voice cloning

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Users can develop virtual voice model based on their own voice. After a user providing us with a recording of four to five hours of his/her own voice, our voice cloning function can generate a voice model based on the recording in 72 hours. Users can create audio freely with their customized voice model anytime thereafter. Additionally, we have developed a simplified version of our voice cloning function which only requires three minutes of a user's recording. This version takes approximately one hour of processing time to generate a voice model.

(vi) Video editing
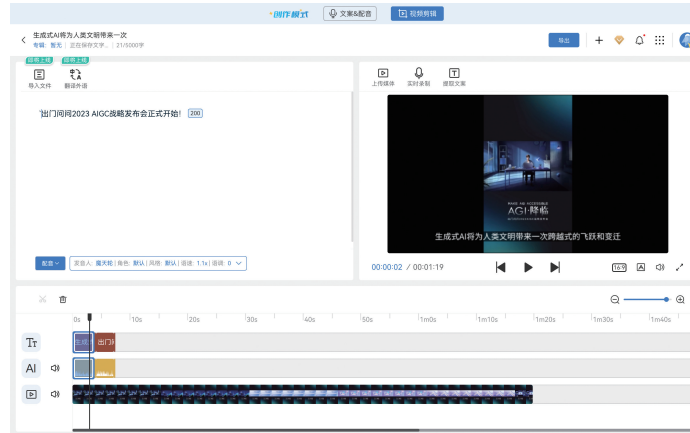
"Moyin Workshop" transforms the way users create professional video content with our all-in-one solution. Our video editor offers a variety of features, including easy external content importing and transcription, screen recording, one-click subtitling, auto-translation, and standard video editing functions like cropping and cutting.

"Moyin Workshop" can create a realistic and dynamic voiceover for AI avatar and environments which would be a vital element in the development of metaverse. As the content creation industry continues to evolve, it provides a breakthrough to the bottleneck in productivity and generates high-quality content efficiently.

"Mozhuan Writing" — Our AI writing assistant

Our AI writing assistant "Mozhuan Writing" is a solution launched in September 2022 for creative writing purposes. It is a solution established with NLP capability to support functions such as copyediting and proofreading. In addition to those similar functions offered by other traditional writing software, leveraging our self-developed "UCLAI," "Mozhuan Writing" allows users to input keywords to generate a complete paragraph or an article. Its AI writing function can support different application scenarios, for example, marketing article writing and creative writing.

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(i)   Smart correction

This function helps to automatically correct typos, punctuation and grammatical mistakes, which enhances the efficiency of proofreading process.

(ii)   Rewording tool

Rewording tool is a function that helps recommend the best wordings to be used in the context and provide suggestions to users to reframe their articles with figurative language such as simile and rhetorical question, which enables users to express themselves effectively as intended.

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(iii) AI writing

The AI writing feature supports functions of template searching and creative writing to produce short video scripts, news clips, marketing advertisements and story composition.

Users can use the AI writing feature to generate content for various scenarios, such as business proposals, creative stories and titles for social media.

By simply filling in required fields, it can finish the paragraph or article in accordance with the keywords provided with a maximum of 500 words.

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(iv) Word library

Word library is a built-in tool with dictionary function and database for synonyms, antonyms and famous quotes. It aims to provide users with different ideas to improve the quality of writing.

(v) Machine translation

Machine translation function empowers users to overcome the language barriers and expand users' reach with the click of a button to seamlessly translate their articles into 14 different languages.

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"Qi Miao Wen" — Our AI writing assistant

Our AI writing assistant "Qi Miao Wen" is a solution launched in November 2023 for writing creation purposes and an upgraded version of "Mozhuan Writing". In addition to all those features in "Mozhuan Writing", "Qi Miao Wen" offers interactive dialogue.

The interactive dialogue function allows users to express themselves effectively by giving instructions directly in a natural and conversational manner with regard to the written content. Leveraging its advanced NLP capabilities, the solution thoroughly analyzes and comprehends user inputs so as to generate new written content that is tailored to meet users' requests.

After the launch of "Qi Miao Wen", content creators will gradually be guided from "Mozhuan Writing" to "Qi Miao Wen". As such, we anticipate that the number of subscriptions in relation to "Mozhuan Writing" will decrease whilst there would be an increase in the user subscription rate of "Qi Miao Wen", although there is no expected timeframe or any anticipated schedule for the replacement as of the Latest Practicable Date.

"Weta365" — Our AI avatar

Our AI avatar, "Weta365," is a video and live streaming solution launched in March 2022. This solution enables users (i) to clone their voice, image, customize their virtual avatar and to personify brand image; (ii) to produce AI-generated video contents for various application scenarios, such as training and education, corporate advertisements, news reporting and online customer services; and (iii) to create avatar and virtual scenes for the purpose of conducting livestreaming via third-party live streaming platforms. Leveraging our NLP and machine learning capabilities, the AI avatar can be programmed to simulate human-like appearance and motion in order to provide a more engaging experience to viewers.

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(i)   Voice cloning, image cloning, customization on avatar and brand image personification:

Voice & face cloning

"Weta365" revolutionizes the way content creators create voiceovers with our human-like voiceover tool, which is capable of producing natural-sounding recordings in seconds. It takes things even further with our AI avatar cloning technology, enabling content creators to create lifelike AI avatars on demand. Our advanced image and voice-cloning results are like real persons, and require just a few clips to clone an AI avatar. Our AI avatar can be utilized for mass production of videos, empowering content creators to create high-quality content at scale, saving time and resources for content creators while maintaining consistent quality with our advanced technology.

3D avatar customization

In addition to our face cloning technology, we also offer cutting-edge 3D avatar customization solutions. With our platform, content creators have the freedom to fully customize their AI avatars, including style, motions, costumes, and accessories. Unlock new levels of creativity and engage content creators' audience with visually stunning, personalized AI avatars.

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Enterprise IP revolution
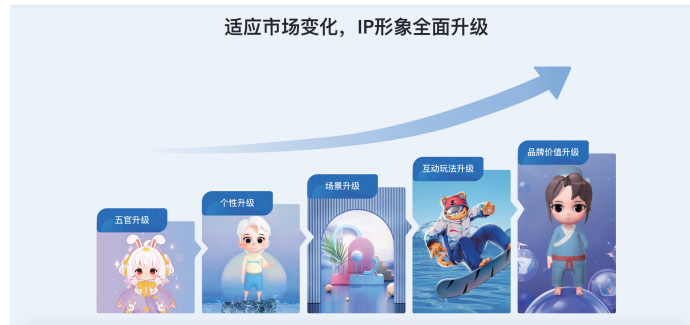
Traditional corporate mascots often suffer from flat, limited imagery, and low commercial value. However, with "Weta365," enterprise users can develop a more dynamic and engaging brand image with a unique personality and distinct characteristics. With advanced face and body motion capture technologies enable corporate mascots to interact with their audiences in real-time, bringing new life and vitality to the brand. Our "Weta365" unlocks the full potential of corporate mascot and leaves a lasting impression to enterprise users' customer.

(ii)   AI-generated video content for various application scenarios:

Our "Weta365" platform is built with a user-friendly interface which is compatible with both mobile devices and computers and supported by a comprehensive database with an enormous amount of virtual background materials such as different venues and lighting settings. Content creators can create a video with an AI avatar reading out the content provided in around five minutes, by following a simple four-step approach as shown below:
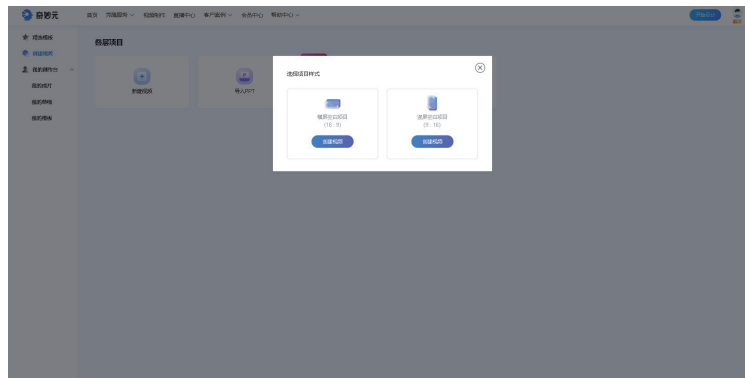
Step 1. To start from either selecting a given template or creating users' own content.
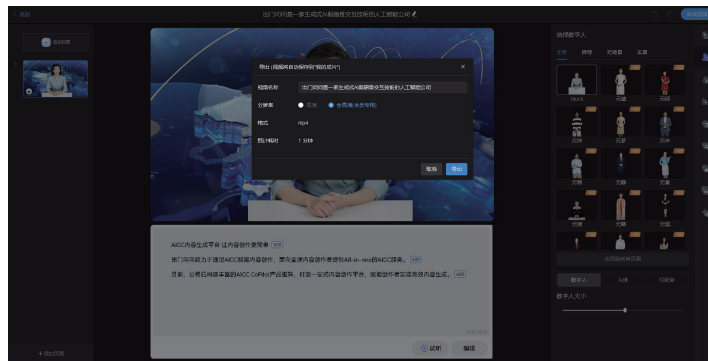
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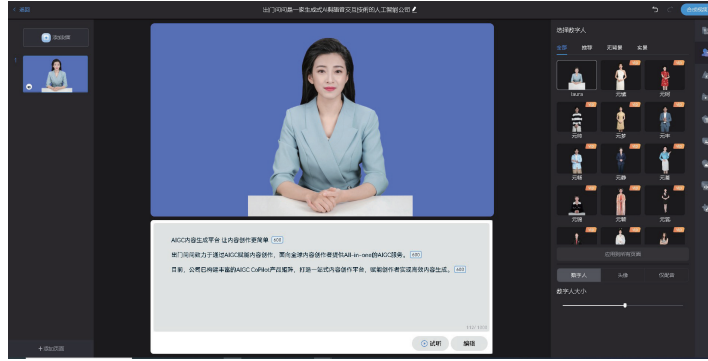
Step 2. To pick an AI avatar and input a transcript with adjustments.

Step 3. To edit the background of the video matching the theme and content of the video.

Step 4. To generate and export the video as the final product after editing.

*(iii) Create AI avatar and virtual scenes for purpose of livestreaming:*

Content creators can create their own AI avatar and virtual scenes. Content creators can also control their AI avatar in real-time through cameras or motion capture devices and livestream through other third-party live streaming platforms.

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24-hour automatic livestreaming
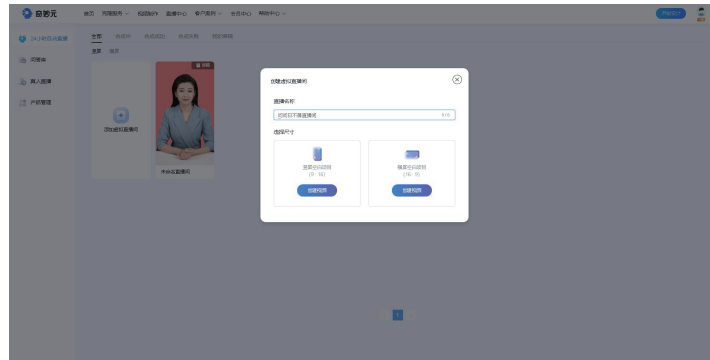
Step 1. To create a virtual livestreaming by selecting "24-hour automatic livestreaming" — "add virtual livestreaming".
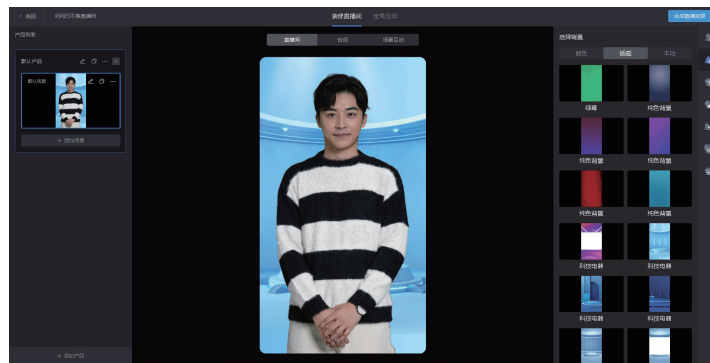
Step 2. To select an AI avatar and customize the livestreaming room by inserting the background, pictures, music and title.
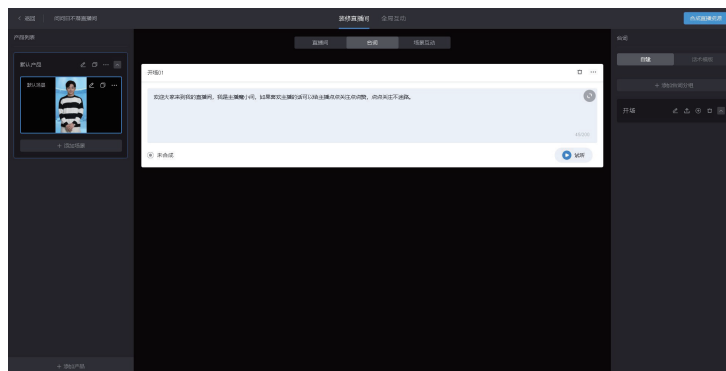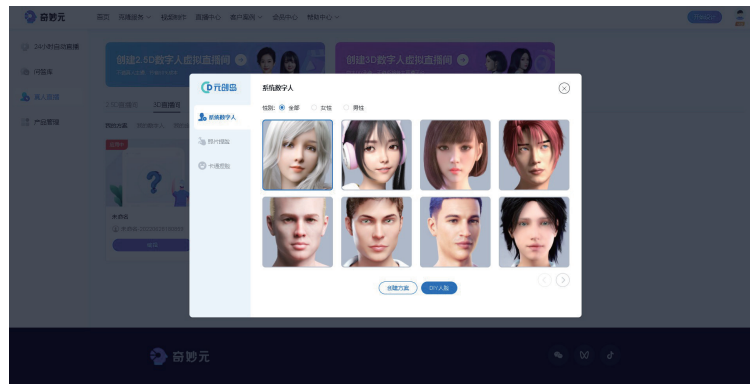

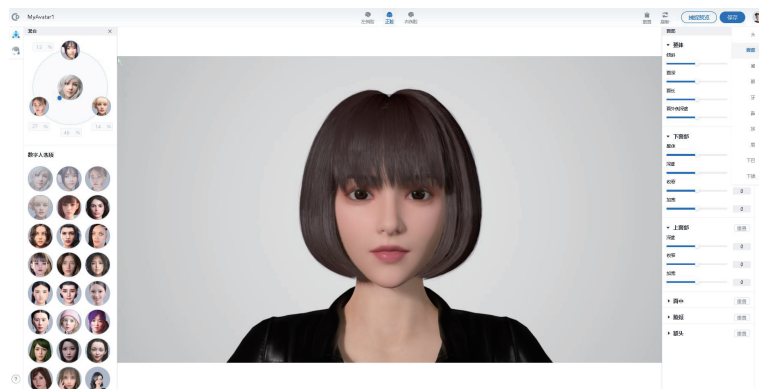Step 3. To edit the dialogue script with various voice over style.

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Step 4. To start the 24-hour virtual livestreaming with local rendering application.
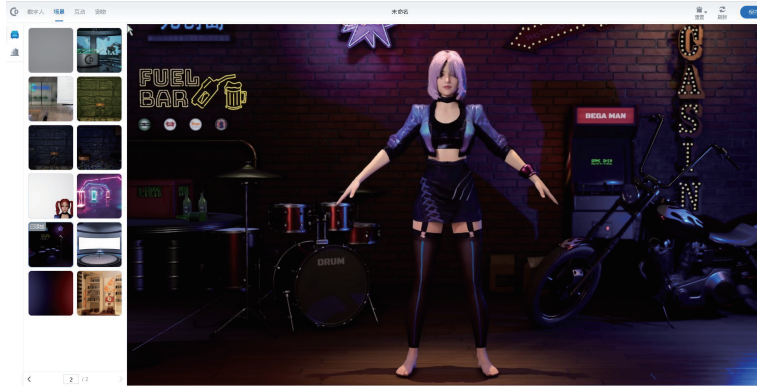
3D avatar livestreaming

Step 1. To create a virtual livestreaming by selecting "create 3D AI avatar virtual livestreaming."
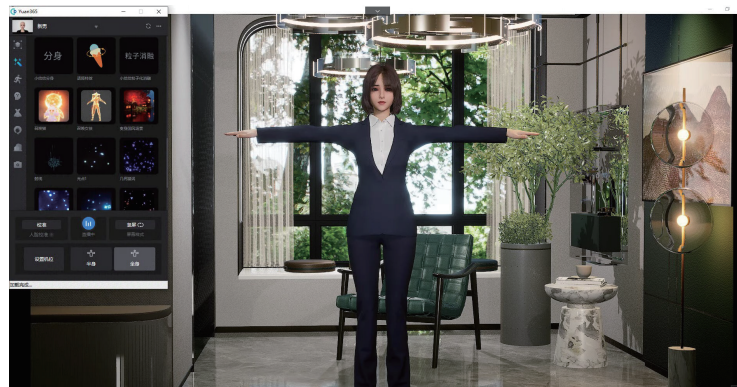

Step 2. To select an AI avatar or to create an AI avatar with different facial feature.

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Step 3. To customize the AI avatar by selecting the background, accessories, special effects and animated motion.

Step 4. To start the virtual livestreaming by clicking "AI avatar livestreaming — 3D" in local or cloud rendering application connecting with other livestreaming platforms.

With "Weta365"'s Live Controller, the content creators can animate the AI avatars' facial expressions and motion by external devices, which allows content creators to maintain the atmosphere and interactiveness of the livestreaming rooms. The AI avatars are also capable of performing a variety of smooth animations to enhance interaction with the intended audience.

"AI Ask365" — Our AI-empowered digital personnel creator

In November 2023, we officially launched a solution targeting enterprise customers, featuring the creation of AI-empowered digital personnel who can act autonomously based on prescribed scenarios. The AI-empowered digital personnel created are equipped with NLP capabilities enabling them to understand and interpret human language, and respond to question user queries and engage in conversations in a manner that simulates human interaction. Enterprises that engage us in the development of a digital personnel will gain exclusive access to our AI Ask365 online platform, which is equipped with a wide range of features.

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(i)   Simplicity

Enterprises who engage us in the development of a digital personnel will have access to our AI Ask365 online platform. A feature of the platform is its simplicity, allowing enterprises to create their own digital personnel easily. With just three steps, enterprises can generate customized interactive digital personnel.

Step 1. Image configuration

The platform offers a diverse array of options for customizing the appearance and sound of digital personnel. Enterprises have the freedom to select from a wide range of visual elements and audio attributes in order to create a character.

Furthermore, we provide offline customization services for digital personnel. In instances where our image database lacks the desired appearance that a client is seeking, our technical staff is available to develop a new avatar offline. This avatar can then be uploaded to the platform, allowing users to select a tailor-made appearance that suits their specific needs. For example, an enterprise may desire its founder or brand ambassador to be presented as its digital personnel.

Step 2. Scene configuration

Enterprises have the flexibility to define the background in which the digital personnel will operate. This includes customizing backgrounds and user interface components to create a personalized setting. Additionally, enterprises can set up active and sleep modes to control how the digital personnel engage with users when they are in different states.

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Step 3. Role configuration

Users can define the roles and characteristics of the digital personnel. This allows for assigning specific tasks or functions to the digital personnel. The platform also includes an intelligent knowledge base, enabling the digital personnel to provide answers or assistance based on their defined roles.

In addition, enterprises can upload to the platform certain content in various formats. The digital personnel, equipped with NLP technology, will provide answers and responses based on their comprehension of the uploaded content. This feature enables seamless integration of enterprise-specific information and allows the digital personnel to interact intelligently with users, providing accurate and contextually relevant information.

(ii) Multi-terminal display

After the digital personnel is created, it can be launched through various media channels. This means that the digital personnel can be showcased and interacted with across various devices, such as computers, smartphones, tablets, or other compatible platforms. This ensures a consistent and convenient experience regardless of the device used, providing flexibility and accessibility to its end users.

We go beyond software and provide intelligent integrated hardware specifically designed for large screens. This hardware is equipped with advanced functionalities including:

(a) Directional audio reception: The large-screen hardware has the ability to capture audio from a specific direction or area. This enables the digital personnel to focus on and respond accurately to audio input coming from a particular source. It enhances the precision and effectiveness of interactions, ensuring that the digital personnel can provide targeted responses.

(b) Voice recognition: The integrated hardware supports voice recognition technology, enabling the digital personnel to understand and interpret spoken commands or queries from end users. This feature enhances the interactivity and responsiveness of the digital personnel, making the user experience more intuitive and user-friendly. End users can communicate with the digital personnel through voice commands, enabling a more natural and convenient interaction.

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(c) Facial recognition: The integrated hardware is equipped with facial recognition capabilities. This allows the digital personnel to identify and recognize individuals based on their facial features. Facial recognition can be utilized for personalized interactions, security purposes, or to provide tailored services to individual users. It adds a layer of personalization and customization to the user experience, making the interactions with the digital personnel more engaging and personalized.

The following table sets forth a breakdown of our revenue from AIGC solutions by fee arrangement for the years indicated:

	For the year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
AI Software Solutions — AIGC solutions			
— Subscription fees	6,585	35,533	101,490
— Project-based fees*(Note)*	237	4,324	16,115
Total	6,822	39,857	117,605

Note: Project-based fees are applied to enterprise customers who request for tailor-made AIGC solutions, such as the creation of a digital human which possesses generative AI features.

The rapid growth in number of paying users as well as average revenue per paying user throughout the Track Record Period was primarily attributable to our continuous efforts in enhancing the features and functions offered by our AIGC platforms, including built-in AI voiceover, AI copywriting and AI virtual characters, and the growing demand for high-quality content creation driven by an increasing number of content creators such as KOLs in various social media channels. Our ongoing efforts and the growing market demand also resulted in the launch of various AIGC platforms and the addition of more features and add-ons that our paying users could

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purchase on top of their subscriptions on our AIGC platforms, consequently leading to higher average revenue per paying user during the Track Record Period. During the Track Record Period, our average acquisition cost per paying user also increased in tandem with our inclination to raise channel fees and seize a larger market share, driven by the observed increase in average revenue per paying user. The following table sets forth the number of paying users and the average revenue per paying user, the number of registered users and monthly active users, as well as the average acquisition cost per paying user and registered user for our AIGC solutions for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Number of paying users [(Note 1)] ('000)	63	237	410
Average revenue per paying user [(Note 2)] (RMB)	104	150	248
Number of registered users ('000)	1,454	2,982	4,038
Number of monthly active users [(Note 3)] ('000)	N/A	1,045	1,970
Average acquisition cost per paying user [(Note 4)] (RMB)	31.8	54.0	133.1
Average acquisition cost per registered user [(Note 5)] (RMB)	1.4	4.3	13.5

Notes:

1. Paying users refer to users whose payments for subscription, renewal and/or other purchases were made on any of our AIGC platforms during the year indicated. Users whose subscriptions were carried forward from the previous year and expired, without renewing, during the year indicated are excluded.

2. Average revenue per paying user equals total revenue from subscription fees in connection with our AIGC platforms divided by the number of paying users and multiplied by 100%.

3. Monthly active users refer to users who access our AIGC platforms monthly. The number of monthly active users is not applicable for the year ended December 31, 2021, as we started to analyze our monthly active users since August 2022 when our user base reached a significant level that justified the cost of analysis.

4. Average acquisition cost per paying user equals total channel fees in connection with our AIGC platforms divided by number of paying users and multiplied by 100%.

5. Average acquisition cost per registered user equals total channel fees in connection with our AIGC platforms divided by number of registered users and multiplied by 100%.

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The following table sets forth a breakdown of the number of paying users and the number of registered users by our AIGC solution matrix:

	"Moyin Workshop"	"Weta365"	Others
Number of paying users[Note] ('000)	2021: 63	2021: N/A	2021: N/A
	2022: 236	2022: 0.6	2022: 0.4
	2023: 404	2023: 2	2023: 4
Number of registered users ('000).	2021: 1,454	2021: N/A	2021: N/A
	2022: 2,957	2022: 4	2022: 21
	2023: 3,625	2023: 48	2023: 365

Note: Paying users refer to users whose payments for subscription, renewal and/or other purchases were made on any of our AIGC platforms during the year indicated. Users whose subscriptions were carried forward from the previous year and expired, without renewing, during the year indicated are excluded.

The increase in our average revenue per contract from our project-based AIGC solutions from RMB26,000 in 2021 to RMB139,000 in 2022 was due to the continuous maturity, improvement in features and variety of our solutions. It mildly dropped to RMB134,000 in 2023 as we successfully launched our new AI Ask365 platform in late 2023. As some of our solutions on this platform had become mature, they could be standardized and offered at lower costs. The following table sets forth the average revenue per contract from our project-based AIGC solutions for the years indicated:

	For the year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Average revenue per contract [Note]	26	139	134

Note: Average revenue per contract is calculated by dividing the total revenue from our project-based AIGC solutions by the total number of contracts for these solutions. Our projects may involve one or more contracts.

API integration feature

Our content creators can access our solutions offerings through API integration which covers "Moyin Workshop," "Mozhuan Writing" and "Weta365." This can be achieved through connecting our API to content creators' website, software applications or any other system interface that is compatible with major coding methods such as JAVA, Python2 and Python3.

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Such integration would provide benefits to our content creators through:

- Increased functionality with time and cost efficiency: Our solutions APIs can provide access to additional functionalities that may not be available natively on our content creators' website or application. Rather than developing new functionality from scratch, integrating APIs can save time and cost by leveraging our mature and well-developed technologies in AIGC solutions. This can be particularly beneficial for small businesses or startup companies with limited resources.

- Scalability: Our solutions offered through APIs can increase the scalability of our client's websites by increasing their traffic handling capability without compromising performance. By offloading certain tasks to our APIs, they can focus on delivering a better user experience without worrying about scalability issues.

AI Software Solutions — AI enterprise solutions

We offer innovative voice-enabled AI-based solutions primarily to enterprises, aiming at solving their pain points and maximizing value for them. We deliver various solutions such as cloud-based solutions, embedded solutions, online-offline integrated solutions and technology/intellectual properties licensing solutions. As of the Latest Practicable Date, we had established an extensive solution matrix specifically for a particular or across multiple industry verticals, such as automotive, finance, TMT and others such as healthcare and retail industries.

The following table sets forth a summary of our key AI enterprise solutions by industry verticals:

	Automotive Industry	Finance Industry	TMT	Others
Targeted customers	Automotive enterprises	Banks and insurance companies	Technology, media and telecom enterprises	Other enterprises

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	Automotive Industry	Finance Industry	TMT	Others
Usage and functions	The voice interaction function can provide automotive enterprises with pre-installation in their automotive products. Depending on the needs of automotive enterprises as well as configurations of specific automotive models, we offer diverse solutions in various forms including intellectual properties licensing that cover one or more aspects along the entire process of voice interaction. With such solutions, users can fully enjoy the benefits brought by the internet of vehicles through voice interactions, including the synergy among interconnected in-vehicle devices as well as the cross-scenario connections between automotive and external networks and devices.	The AI customer service system with speech recognition and semantic understanding functions can deal with end customers' demands in an efficient manner. The intelligent voice quality inspection system can convert imported audio files to text by speech-to-text technology and analyze the text according to the imported call data to ensure service quality.	The AI software-embedded hardware can cater to enterprises' highly customized demand for software-hardware integrated solutions. For example, functions such as schedule notification and Bluetooth positioning functions can be embedded into various smart devices. With AI-based, voice-enabled, language technologies and strong software-hardware integration capabilities, the tailor-made smart devices can satisfy enterprises whose demands require strong software design capabilities and software-hardware integration abilities.	Solutions with voice chat robot functions can enhance enterprises' business operations and lower operational costs. These solutions can improve the quality of services provided through intelligent learning on the accuracy of online models. The solutions are able to identify and recognize verbal interruptions, rhetorical questions, non-response and change of topic in the dialogue to provide realistic and humanoid responses. Further, enterprise customers can customize the dialogues based on their business aims and guide the users to solve their own enquiries through the customized multi-round dialogues.

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	Automotive Industry	Finance Industry	TMT	Others
Average contract price [Note 1]	Historically, our high-value customers had large contribution to the Group's revenue growth and we expect the contract price of our projects with the automotive industry excluding high-value customers will be within the range of RMB1-10 million on average in the coming years. [Note 2]	Approximately RMB0.7 million	Approximately RMB0.45 million [Note 2]	Approximately RMB0.7 million
Range of contract period ..	Three years	Nine months to one year	20 days to two years	Four months to three years
Fee arrangements	Contractual payment term	Contractual payment term	Contractual payment term	Contractual payment term
Sales and distribution channels	In-house sales team and channel partners [Note 3]	In-house sales team and channel partners [Note 3]	In-house sales team and channel partners [Note 3]	In-house sales team and channel partners [Note 3]

Notes:

1. Average contract price may vary considerably by the terms and duration of a contract and the type of services provided.

2. The calculation of the average contract price has not taken into account our high-value customers. They are excluded to present a clearer visualization of the analysis.

3. We primarily sell our AI enterprise solutions through our in-house sales team who engage in sales activities through phone calls and onsite visits. We also collaborate with our channel partners to leverage the network effect and word-of-mouth referrals by stakeholders, while actively exploring market opportunities.

Our industry verticals — 1. Automotive industry

We develop and provide voice interaction solutions to automotive enterprises for pre-installation in their automotive products. Depending on needs of automotive enterprises as well as configurations of specific automotive models, we offer diverse solutions in various forms including intellectual properties licensing that cover one or more aspects along the entire process of voice interaction. With such solutions, users can fully enjoy the benefits brought by internet of vehicles through voice interactions, including the synergy among interconnected in-vehicle devices as well as the cross-scenario connections between automotive and external network and devices.

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Our intelligent automotive solutions offer key features as follows:

• *Voice interaction functions.* Underpinned by our proprietary AI-based language technologies, our intelligent automotive solutions can offer all mainstream voice interaction functions available in the market. For example, users can enjoy our intelligent automotive solutions, with auxiliary functions such as phone calls, navigation, air conditioning, and checking of weather, flights and hotels through default hot words and personalized hot words.

• *Multiple languages and dialects.* As of the Latest Practicable Date, our intelligent automotive solutions had supported four languages and dialects, including Mandarin, Cantonese, Taiwanese and Sichuan dialect.

• *Accurate online and offline recognition.* Our intelligent automotive solutions enable both online and offline access. Our solutions can achieve at least 91% of accuracy rate of online ASR and at least 88% of offline ASR.

Case Study

Background. Our client is an international automotive manufacturer with long operating history and abundance of product lines, including mini cars, sedan, sport cars, SUVs and commercial vehicles. In view of enhancing the innovativeness of its products, our client wished to develop in-vehicle intelligent voice interaction capabilities for its customers and to build up voice-interacted in-car control and search functions, to provide the users with a more convenient and intelligent driving experience.

Solution. We provide comprehensive intelligence voice interaction solutions to build up an intelligent and personalized smart cockpit experience. Leveraging technical capabilities such as signal processing, hot-words triggering, speech recognition, natural language understanding and voice synthesis, we introduce our client with high-quality voice interaction capabilities for different vehicle models, together with online and offline voice interaction functions, ensuring that the system can still function well under weak network condition. With embedding our solutions, users can experience efficient end-to-end intelligent voice interaction with low power consumption, low latency and dual network.

Our industry verticals — 2. Finance Industry

We offer a set of voice interactive solutions including speech dictation, natural language understanding and speech synthesis, with the aim to introduce auxiliary functions to financial institutions that could lower their manpower consumption.

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Applications

- *Fraud detection*: Financial institutions can conduct multi-round dialogues with their customers based on a dynamic questionnaire and cross check responses provided on a rolling basis, thereby recognizing any inconspicuous deficiencies. This solution also features multi-modality biometric recognition technologies by employing a combination of face recognition, voiceprint recognition and micro-expression detection. Based on detection results, an evaluation report encompassing risk warnings and a risk conclusion will be generated on a real-time basis, and then sent back to financial institutions for reference.

- *Intelligent contact center*: Our solution understands human languages and detect human intentions while conducting multi-round dialogues to generate the most favourable answers. Financial institutions can delegate simple functions, such as customer service and callback, to our solutions, as such they can deal with their end customers' demands in an efficient manner.

- *Meeting transcription*: Our solution transcribes audio messages into text and displays the converted text on screen in real-time. It also generates the converted text in Word document format for users' records. The accuracy rate of the transcription exceeds 90%. Enterprises can save up manpower for taking notes in meeting and enjoy a smooth meeting with real-time transcription techniques.

Case Study 1

Background. Our client is a provincial branch of a state-owned bank in the PRC. In the process of operating credit business, in order to guarantee the authenticity of the creditors, a massive amount of manpower was needed to perform verification on the creditors' identities over phone calls. The workload of manual verification over phone calls can be heavy and the verification standard of each of the officers can be different. In view of the aforesaid, our client wished to achieve intelligent upgrades to improve operating efficiency, unify verification standard and to reduce labour costs.

Solution. We introduce our AI anti-fraud solution to our client to prevent theft and falsification of identities by engaging real-time dialogue questionnaires and generating personalized questionnaires for creditors. Further, by adopting automatic phone calls and asking questions through real-time AI-generated voices, and generating survey results automatically, the efficiency of detecting fraud is improved and the relevant costs are also decreased.

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Case study 2

Background. Our client is an insurance company. Through developing a system allowing its customers to interact with AI customer service through voice interactions, customers can obtain information and complete purchase of insurance products through AI customer service, hence can increase our client's capability to serve more customers simultaneously as its capacity will no longer be limited by the number of staff hired. With AI customer service, our client can avoid the situation where there lacks manpower to operate our service hotlines, and can also reduce costs on operations and human resources.

Solution. We provide a comprehensive solution which consists of our speech recognition system, speech synthesis system and semantic understanding system ("**Intelligent Voice System**"). Our client can import its services and products data, FAQ data and business processes into the Intelligent Voice System to build its AI customer service system. After converting customers' questions and requests into text through speech recognition technology, the system will process the converted text and propose corresponding service, or business information, hence convert the same into AI voice messages through speech synthesis technology.

Case study 3

Background. Our client is an insurance company. It needed to establish an intelligent system to help with analyzing the calls between its insurance agents and the customers, which consumed a huge amount of manpower.

Solution. We provide a comprehensive solution which consists of our speech recognition system and semantic understanding system ("**Intelligent Voice Quality Inspection System**"). Our client can import sampling call data into the Intelligent Voice Quality Inspection System. The system will convert the audio file to text by speech-to-text technology and then analyze the text according to the imported call data.

Our industry verticals — 3. TMT

We also provide AI software-embedded hardware to cater to enterprises' highly customized demand for software-hardware integrated solutions. For instance, we can embed our personalized assistant functions such as schedule notification and Bluetooth positioning onto various smart devices. With AI-based, voice-enabled, language technologies and strong software-hardware integration capabilities, we are also able to offer tailor-made smart devices and accessories to various enterprises whose demands require strong software design capabilities and software-hardware integration abilities, such as Technology Corporation A, a PRC top-tier

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university and a PRC research institute. For details of our collaboration with Technology Corporation A, please refer to the paragraph headed "— Our strategic collaboration — Technology Corporation A" in this section.

Application

• Embedding assisting functions such as schedule notifications and Bluetooth positioning onto smart watches

Case Study

Background. Our client is a worldwide renowned intelligent image technology provider, which provides intelligent image solutions for consumers and various industries based on panoramic technology and through its own research and development and technological innovation. Its product lines include sport cameras, webcams, aerial cameras and professional cameras. They have been committing to improve product functionality and innovativeness. As such, our client wanted to add intelligent speech recognition to and improve audio processing of its sport camera to provide a more intelligent, convenient and powerful audio processing system.

Solution. We provide our client with a comprehensive intelligent voice interaction solution and an audio processing solution to upgrade a sport camera with more intelligent and personalized functions and enhanced audio processing ability. Based on our technical capabilities such as signal processing, neural network signal processing, hot word triggering, and secondary hot word detection, we provide our client with high-quality speech processing and speech recognition functions, and ensure that it is still able to function without network. By embedding our solutions, users can experience the efficient end-to-end speech recognition function and a more stable audio processing system with low power consumption, low latency and can function without network.

Our industry verticals — 4. Others

(i) Healthcare industry

We offer solutions that can perform vital signs data monitoring functions for AI smart devices users. Leveraging massive human-machine interaction acquired by in-network devices, our big-data algorithms can accurately analyze and infer users' exercise and vital signs and hence provide users with a more accurate and practical guidances for exercise and health.

Applications

• Performing monitoring functions on heart rate and respiration rate.

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- Measuring number of floors climbed, distance walked over, HRV pressure and calories.

- Monitoring sleep habits with measuring and analysis functions of, for instance, respiration rate, bedtime, sleeping stage, sleeping quality, degree of snoring and skin temperature during sleep.

- One-tap measurement of multiple health metrics, upgraded sleep tracking with premium membership and 24-hours continuous heart rate monitoring.

- Fitness tracking with more than one hundred workout modes, including open water swimming, sailing, outdoor rock climbing and rugby.

- Additional ecosystem services, including Sports and Health Data Platform, TimeShow and Mobvoi Treadmill App, provide users with seamless and immersive experience.

Case Study

Background. Our client is a US company specializing in the R&D, manufacturing and sales of electric wheelchairs, seating systems and assisted living equipment. Its products are widely used in areas such as healthcare, social welfare and home care in the US. Wheelchair users often suffer from issues such as shoulder pain due to prolonged use of the wheelchair, while many users do not like the controller that comes with the wheelchair. On view of this, our client was looking for a more advanced and stylish control module.

Solution. Our client has chosen our solution based on TicWatch E3, which is a smartwatch in which we develop and embed the SmartDrive application, which enables the user to control the wheelchair to move forward and stop through gesture activation. The users can activate SmartDrive with just a touch of the hand and no need to actually push or reach. The customized TicWatch E3 also comes with a special strap that can only be worn by the users using our client's products to ensure that the watch is always securely mounted on the wheelchair.

(ii) Retail industry

We have designed solutions with voice chat robot functions to enhance enterprises' business operations and lower their operational costs. Leveraging the online data and users' feedback, our solutions are able to perform self-optimization through intelligent learning on the accuracy of online models to improve the quality of services provided. The solutions are able to identify and recognize verbal interruptions, rhetorical questions, non-response and change of topic in the

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dialogue to provide realistic and humanoid responses. Further, our enterprise customers can customize the dialogues based on their business aims and guide the users to solve their own enquiries through the customized multi-round dialogues.
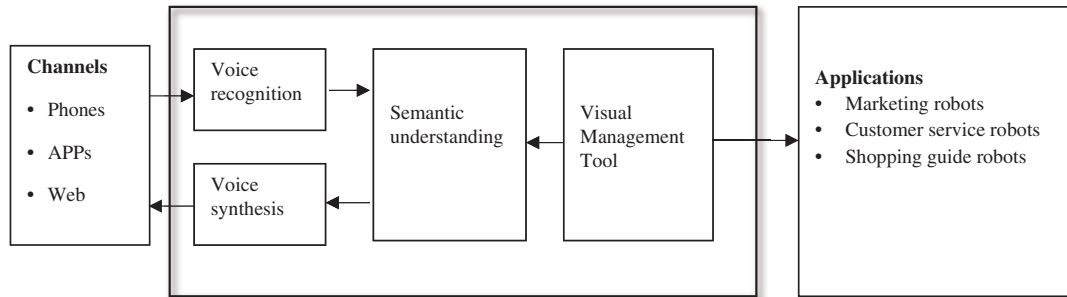
Applications

- *Intelligent customer services and auxiliary functions*: Leveraging the speech recognition system, we are able to transcribe in real-time the conversation between the customer and the customer service personnel into text, analyze the semantics and keywords in the text, and integrate with that particular enterprise's business systems and database, in order to provide the customer service personnel with real-time suggestions on appropriate answers.

- *Intelligent telemarketing*: The intelligent voice robot of the enterprises makes phone calls to its terminal customers, and conducts outbound call scenarios such as information notification or telemarketing in the form of voice interaction, including contract return visit, marketing activity notification, sales willingness survey and bill return notification.

Case study

Background. Our client is a "digital-retail" solution provider in Hong Kong and Taiwan. Our client wished to assist its customer, who is a cosmeceuticals retailer (the "**Cosmeceuticals Retailer**"), to establish a system that can provide recommendations to the consumers through interactions with consumers via voice or touch instructions and to effectively and systematically record consumer preferences and increase conversion rates.

Solution. We offer a comprehensive solution that consists of our speech recognition system, speech synthesis system and semantic understanding system (the "**Intelligent Voice System**"). The Cosmeceuticals Retailer can import its products data and FAQ data into the Intelligent Voice System. The system will convert the verbal questions and/or requests raised by consumers into text through speech recognition technology, then convert the information into AI voice messages through speech synthesis technology to search for the most appropriate answers.

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Intellectual property rights arrangements

As part of our AI enterprise solutions, we also generate revenue from entering into intellectual property rights ("**IP rights**") arrangements with enterprises who are in need of various technologies such as voice interaction capabilities developed by us. Our IP rights arrangements cover, among others, copyrights, patents and know-how and are mainly conducted by way of IP rights licensing, IP rights co-developing and co-owning and technology transfer.

We generally enter into written agreements with our clients for such arrangements. Depending on the IP rights concerned, the salient terms of such agreements primarily include (i) the term of the arrangements, during which the parties will utilize the relevant IP rights in accordance with the agreed arrangements; (ii) the fees to be paid for such arrangements, generally by way of a fixed licensing fee; (iii) payment terms, either by a lump sum or by installments, (iv) delivery including the details of the IP rights concerned and the specifications required; (v) termination, according to which the parties may terminate the agreements.

IP rights arrangements with Automotive Sub A

In 2021, we entered into a series of IP rights arrangement agreements with Automotive Sub A pursuant to which, the parties agreed to cooperate on and share certain copyrights, patents and know-how ("**Relevant IPs**") matters. According to such arrangements, the parties cooperate on and share certain IP rights mainly in relation to the backend technology for automotive speech dialogue system. For the background leading to the IP rights arrangements with Automotive Sub A, please refer to "— Our Strategic Collaboration — Automotive Corporation Group" in this section.

Set forth below are the salient terms of the IP rights arrangements with Automotive Sub A:

Contract amount	US$55 million
Details of the Relevant IPs	80 registered patents and patent applications, 17 copyrights of registered software and various know-how which includes the source codes and the source data used in the development of the Relevant IPs. The Relevant IPs are components of the automotive voice interaction solutions to be utilized by Automotive Sub A in vehicles manufactured by the Automotive Corporation Group.
	The Relevant IPs were self-developed by our Group.

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Milestones and payment arrangement

Our Group shall deliver to Automotive Sub A three batches of deliverables:

- the first batch of deliverables included software development kit, descriptions of technology and functions through training sessions provided by our Group to employees of Automotive Sub A, and transfer agreements for co-ownership of the Relevant IPs, which shall be delivered by our Group by November 2021 for the first payment in the sum of US$15 million;

- the second batch of deliverables included the co-ownership certificates of certain Relevant IPs, source code and documentation in relation to the backend technology, know-how, training materials and domain name replacement, which shall be delivered by our Group by December 2021 for the second payment in the sum of US$18.5 million; and

- the final batch of deliverables included co-ownership certificates of the remaining Relevant IPs and handover of the backend technology which shall be delivered by our Group by June 2023 for the final payment in the sum of US$21.5 million.

The last batch of deliverables were delivered in June 2023 and the project was completed in late June 2023 accordingly.

Automotive Sub A shall pay our Group within fifteen days upon receipt from us the invoice for the delivery of each of the three batches of deliverables, subject to the completion of delivery and Automotive Sub A's confirmation of receipt.

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	Each of the three batches of deliverables was subject to satisfaction of backend test conducted by Automotive Sub A. Upon completion of the backend test, Automotive Sub A shall issue a confirmation regarding satisfaction of the test. Once we received this confirmation, our Group's obligations regarding the particular batch of deliverables were considered fulfilled.
Profit sharing	There is no profit sharing between the parties.
Roles, rights and obligations of our Group	Our Group has the sole discretion to use, or grant non-exclusive licenses to any third party to use, all or any part of the Relevant IPs as it sees fit in connection with our commercial objectives, without the need to account to or share profits with Automotive Sub A.
Roles, rights and obligations of Automotive Sub A	Automotive Sub A may only use or grant non-exclusive licenses to any third party to use, all or any part of the Relevant IPs only for vehicle projects bearing the brands of the Automotive Corporation Group, and Automotive Sub A shall not release or disclose any source code within the Relevant IPs for new project development purposes.
Termination	The arrangement may be terminated upon either party breaches any of its material obligations or occurrence of any force majeure event.

The following table illustrates the time of delivery, acceptance, payment and revenue recognition for each batch of the deliverables under the aforementioned IP rights arrangements:

	Actual delivery time	Time of acceptance by Automotive Sub A	Time of payment by Automotive Sub A	Time of revenue recognition by our Group
First batch of deliverables[1]	November 2021	November 2021 and January 2022	November 2021	November 2021 and January 2022
Second batch of deliverables[2]	December 2021	January 2022	February 2022	January 2022
Final batch of deliverables .	June 2023	June 2023	June 2023	June 2023

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Notes：

(1) Our Group completed the training sessions to Automotive Sub A on relevant technologies and know-how in November 2021. The revenue from training was fully recognized in 2021. According to the aforementioned IP rights arrangements, those deliverables had to pass the backend test run by Automotive Sub A. Our Group therefore recognized the revenue associated with the transfer of those deliverables in January 2022 upon receiving confirmation from Automotive Sub A regarding the satisfaction of such backend test.

(2) Our Group passed the remaining backend technologies in December 2021. After the receipt of all the underlying technologies and know-how from the first and second batches of deliverables, Automotive Sub A conducted a backend test on all these deliverables and confirmed the satisfaction of such backend test in January 2022.

For the years ended December 31, 2021, 2022 and 2023, from the above-mentioned IP rights arrangements with Automotive Sub A, being our largest customer in 2022 and 2023, we generated revenue of RMB3.2 million, RMB213.0 million and RMB138.8 million, accounting for 0.8%, 42.6% and 27.4% of our total revenue for the same years, respectively.

Our Group's gross profit margin attributable to the Automotive Sub A Arrangement in 2021 and 2022 was both close to 100% in light of the unique cooperation arrangement between our Group and Automotive Sub A, as almost all of the costs in relation to the co-ownership of intellectual property rights and other deliverables transferred were incurred in the ordinary research and development and operation activities of our Group before the IP rights arrangements transaction, mainly including research and development expenses and other related costs. In regards of the revenue from Automotive Sub A, there were only few staff costs to provide support and consultancy services throughout the IP rights arrangements transaction. As a result, the gross profit margin for each of the years ended December 31, 2021, 2022 and 2023 was extremely high, being close to 100%.

During the Track Record Period, there was high contribution of revenue from Automotive Sub A as a result of our IP rights arrangement project with Automotive Sub A. The high concentration of customer and service to Automotive Sub A is not expected to continue as the IP rights arrangement project was completed in June 2023, and as a result of this, we expect to record a decrease in adjusted net profit (non-IFRS measure) in the short term, primarily due to an expected decrease in revenue from our AI enterprise solutions given the completion of the IP rights arrangements with Automotive Sub A.

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However, our Directors are of the view that the completion of the IP rights arrangements with Automotive Sub A will not materially affect our Group's business and financial position considering the following reasons:

(i) before the IP rights arrangements with Automotive Sub A, our Group had been licensing digital signal processing noise cancellation algorithm solutions based on our underlying speech recognition technology to a multinational software company based in the PRC, which was a kind of IP right arrangements. Our cooperation history with Automotive Sub A and the experience gained from the IP rights arrangements with Automotive Sub A serves as a successful precedent for our Group to market our IP rights arrangement business, in particular, opens up the opportunity for us to cooperate with other companies from the automotive industry. The subsequent IP rights arrangements that we entered into with a technology development subsidiary of a PRC domestic automotive group as disclosed in "IP rights arrangements with a technology development subsidiary of a PRC domestic automotive group" below serves as a sound example;

(ii) the accomplishment of the IP rights arrangement project with Automotive Sub A is a significant value-adding milestone for our Group to strengthen and expand our IP rights arrangement business model. According to the IP rights arrangement agreements, Automotive Sub A may grant non-exclusive licenses to any third party to use the relevant IPs, but only for the purpose of providing the relevant in-vehicle solutions to vehicle projects of the Automotive Corporation Group of brands and is prohibited from releasing or disclosing any source code within the assigned IP for new project development purpose, while our Group is free to grant non-exclusive licenses to any third party to use the relevant IPs without restriction. In addition, the underlying speech technologies possessed by our Group are not confined to a rigid form but multiadaptive in nature, which can be retrofitted to bring specific improvements desired by different clients. As of the Latest Practicable Date, we had also entered into two IP rights arrangement agreements with a PRC enterprise that sells photography, recording equipment and accessories and a PRC enterprise that designs and sells smart devices, respectively; and

(iii) AI enterprise solutions are not the sole revenue-generating business segment of our Group. For instance, our revenue from AIGC solutions has increased by approximately 2.0 times from RMB39.9 million for the year ended December 31, 2022 to RMB117.6 million for the year ended December 31, 2023. We will continue to expand our solutions and offerings under the different business segments.

For our plan to enhance our financial performance, please refer to the paragraph headed "— Business Sustainability — Our path to sustainable profit" in this section.

BUSINESS

IP rights arrangements with a technology development subsidiary of a PRC domestic automotive group

In 2023, we entered into an IP co-development agreement with a technology development subsidiary of a PRC domestic automotive group, pursuant to which, by way of licensing, we provide the client with co-development service such as source codes and training data for various modules including, among others, sound source localization, beamforming and echo cancellation (the "**IP Technologies**"). The agreed fees shall be paid when the development plan, the IP Technologies together with the relevant explanatory documentations and the development solutions are delivered according to the agreement. The ownership of the IP Technologies remains with us and that of the relevant developed solutions will be owned by the client.

Set forth below are the salient terms of the IP rights arrangements with the PRC domestic automotive group:

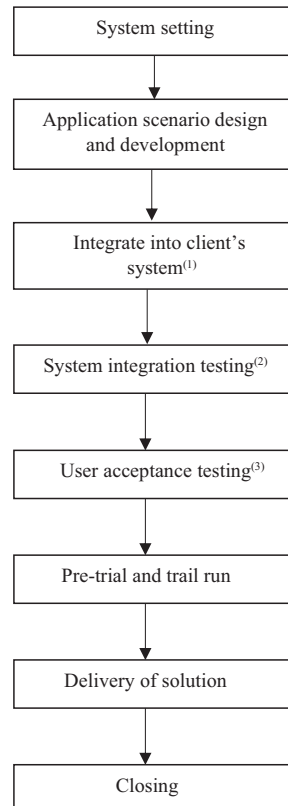|	
Contract amount	RMB4.19 million
Milestones and payment arrangement	Our Group shall deliver to the PRC domestic automotive group three batches of deliverables.
	The PRC domestic automotive group shall pay our Group within 60 days upon receipt from us the invoice for the delivery of each of the three batches of deliverables.
	The three batches of deliverables were all delivered by late 2023.
Profit sharing	There is no profit sharing between the parties.
Roles, rights and obligations of our Group	Our Group provides the PRC domestic automotive group with IP Technologies, of which our Group has all the ownerships.
Roles, rights and obligations of PRC domestic automotive Group	The PRC domestic automotive group shall use all or any part of the IP Technologies without the need to account to or share profits with the Group, but it shall not be allowed to transfer or assign any part thereof to any third party.
Termination	Both parties may agree on early termination of the arrangements based on mutual consent or in the event of force majeure.

BUSINESS

Subsequent to the aforesaid IP rights arrangements, we entered into another contract with the same PRC domestic automotive group in December 2023, with a contract sum of RMB1.2 million, to continue our cooperation.

Operations

The following chart generalizes the key stages of our AI enterprise solutions workflow (which may vary case by case for different industry verticals):

```
┌─────────────────────────────┐
│       System setting        │
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│  Application scenario design │
│       and development        │
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│    Integrate into client's  │
│         system(1)           │
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│ System integration testing(2)│
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│  User acceptance testing(3) │
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│    Pre-trial and trail run  │
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│     Delivery of solution    │
└─────────────────────────────┘
              │
              ▼
┌─────────────────────────────┐
│           Closing           │
└─────────────────────────────┘
```

Notes:

(1)   Integrate into client's system: we install and deploy our solutions to client's servers and customize and develop software middleware according to customer needs. We use the middleware to integrate our solutions (that have been installed with customer servers) with the customers' own IT systems.

(2)   System integration testing ("**SIT**"): Based on the testing plan we formulated with our customers, we conduct the first stage engineering testing and verification on the abovementioned integration.

(3)   User acceptance testing: Based on the testing plan we formulated with our customers, we carry out the second stage user testing and verification on the abovementioned SIT, which serves as one of the main basis for a project acceptance.

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The following table sets forth a breakdown of our revenue from AI enterprise solutions and number of enterprise customers (excluding high-value customers) by industry verticals for the years indicated:

	For the year ended December 31,					
	2021		**2022**		**2023**	
	Revenue	_Number of enterprise customers (excluding high-value customers)_	_Revenue_	_Number of enterprise customers (excluding high-value customers)_	_Revenue_	_Number of enterprise customers (excluding high-value customers)_
	RMB'000		_RMB'000_		_RMB'000_	
Automotive Industry	19,440	—	213,136	—	189,165	2
Finance Industry.	4,129	7	7,999	9	1,604	7
TMT Industry	18,426	28	28,665	16	18,932	25
Others.	10,702	16	13,231	21	15,941	23
	52,697	51	263,031	46	225,642	57

The following table sets forth a breakdown of our revenue from AI enterprise solutions by fee arrangement for the years indicated:

	For the year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	_RMB'000_	_RMB'000_
AI Software Solutions — AI enterprise solutions			
— Quantity-based fees	13,077	14,692	19,017
— Project-based fees	39,620	248,339	206,625
Total	52,697	263,031	225,642

The average revenue per enterprise customer (excluding high-value clients) increased from RMB437,000 in 2021 to RMB647,000 in 2022, and further to RMB689,000 through continuous enhancement of our AI and NLP technological capabilities. The number of enterprise customers (excluding high-value clients) increased to 57 in 2023 as compared to 46 in 2022 due to the accumulation of our industry and technological know-how to cover more verticals.

BUSINESS

The following table sets forth the number of enterprise customers (excluding high-value customers) and the average revenue from each enterprise customer (excluding high-value customers) for our AI enterprise solutions for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Number of enterprise customers (excluding high-value clients)[1][2][3]	51	46	57
Number of high-value clients[1]	3	3	3
Average revenue per enterprise customer (excluding high-value clients) *(RMB'000)*	437	647	689
Revenue from repeated enterprise customers *(RMB'000)*[4]	13,796	20,136	17,835

Notes:

(1) Our high-value customers included Automotive Sub A, Mobvoi JV and Technology Corporation A who accounted for 57.7%, 88.7% and 82.6% of our revenue from AI enterprise solutions for the years ended December 31, 2021, 2022 and 2023, respectively. Automotive Sub A became our high-value customer in 2021. The average revenue per high-value customers was RMB10.1 million, RMB77.8 million and RMB62.1 million for the years ended December 31, 2021, 2022 and 2023, respectively. They are excluded to present a clearer visualization of the analysis.

(2) All projects with enterprise customers were profitable during the Track Record Period.

(3) Other than the high-value customers, a substantial number of our customers were engaged in one project with our Company in each year.

(4) Our repeated enterprise customers represent those enterprise customers who, prior to the year indicated, had utilized our AI enterprise solutions since we launched our AI enterprise solutions in 2017.

Smart Devices and Other Accessories

Ever since our inception in 2012, we have been committed to defining the next generation of human-machine interaction. To this end, we have sedulously strived to infuse our proprietary AI-based, voice-enabled, end-to-end language technologies into our self-developed solutions. Leveraging our strong software-hardware integration capabilities, we have successfully carried out deployment in commercializing our Smart Devices and Other Accessories. In particular, we have developed AI smart watch — TicWatch series and other AI-empowered hardware products and non-AI smart devices.

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Consumer smart devices — TicWatch series

We develop and launch smart watches with smooth AI voice interaction under TicWatch brand. To cater to diverse and evolving customer demands and preferences, we constantly conduct technological innovation and functional optimization, and launch new models from time to time. As of the Latest Practicable Date, we had launched five generations of TicWatch-series products with 80 SKUs in total for consumers.

The following table sets forth our TicWatch-series products matrix for consumers as of the Latest Practicable Date:

Generation	Time of Launch	Product		
First Generation	2015	TicWatch 1 (Bluetooth)		
Second Generation	2016 to 2017	TicWatch 2 (3G / Bluetooth)	TicWatch S (3G / Bluetooth)	TicWatch E (3G / Bluetooth)
Third Generation	2018 to 2019	TicWatch Pro (Bluetooth)	TicWatch Pro (LTE)	TicWatch S2 (Bluetooth)
		TicWatch E2 (Bluetooth)	TicWatch C2 (Bluetooth)	TicWatch Kids (LTE)

BUSINESS

Generation	Time of Launch	Product		
Fourth Generation	2020 to 2022	TicWatch Pro 3 (LTE / Bluetooth)	TicWatch Pro 3 Ultra (Bluetooth)	TicWatch Pro 3 Ultra (LTE)
		TicWatch GTH X (Bluetooth)	TicWatch GTH (Bluetooth)	TicWatch GTH 2 (Bluetooth)
		TicWatch GTA (Bluetooth)	TicWatch GTK (Bluetooth)	TicWatch GTW (LTE)
		TicWatch E3 (LTE)		
Fifth Generation	2023	TicWatch Pro 5 (Bluetooth)		

BUSINESS

TicWatch is a product that integrates software, hardware, and voice AI interaction. The diagram below illustrates the architecture of TicWatch.
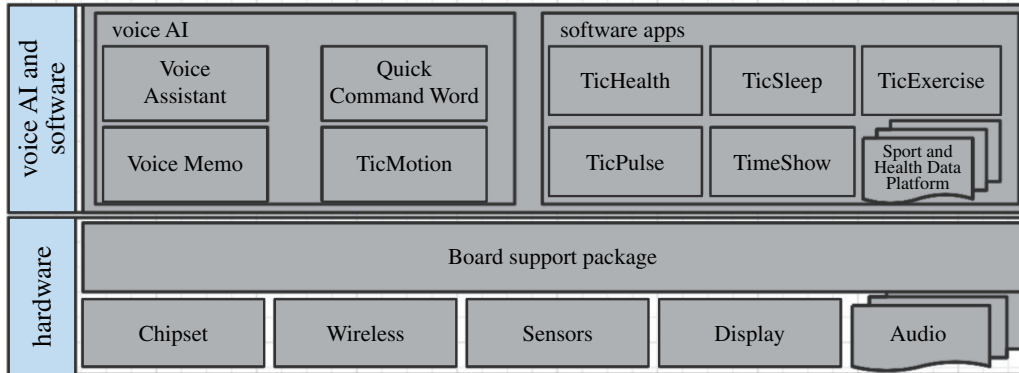
Our TicWatch series are equipped with the latest chipset platforms, which can minimize power consumption yet with powerful computing power, providing a solid foundation to run our AI modules and software apps. In turn, the optimized integration of our hardware components and our advanced AI modules and software apps could provide the end users of our TicWatches with astonishing user experiences.

- *AI modules for TicWatch*: Our TicWatch is preloaded with a suite of AI modules including Voice Assistant, Voice Memo and TicMotion. While all the AI modules share the similar algorithms and backend as in other verticals, they might use various sensor specific to the smart watch to provide special features. Those sensors can (i) monitor on heart rate, blood oxygen, skin temperature and various health-related data to keep track on the end users' health status around the clock and provide specific recommendation to end users; (ii) be tilted to wake on wrist raise from sleep mode; and (iii) empower our auto detecting sports mode using TicMotion. The front-end user interface has also been tailored for the rounded and squared screen of smart-watches. The chart below lists major AI modules preloaded in our TicWatch and corresponding sample user interfaces.

AI module	Sample UI
Voice Assistant WearOS built-in AI assistant — Xiaowen voice assistant provides smart watches with tons of third-party services. It is easy to get search results or system controls through voice query.	
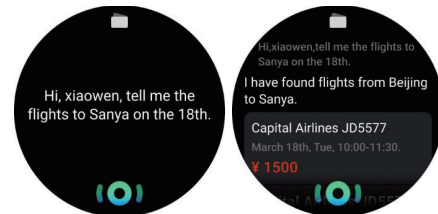
BUSINESS

AI module

Voice Memo

Users can easily make a record on the wearable device and convert voice to text on the Mobvoi app on the phone. Convenient to put smart tags for each paragraph automatically and intelligently distinguish between interlocutors. Support to switch between all conversation and summary.

TicMotion

As a major part of the assistant, TicMotion offers useful and instant information streaming with rich services. Along with scrolling up the list, more information related to user activity will be shown up.

Quick Command Word

Quick command word is based on Mobvoi Voice Assistant technologies. It's much easier to access applications services straightly without any wake-up word.

Sample UI
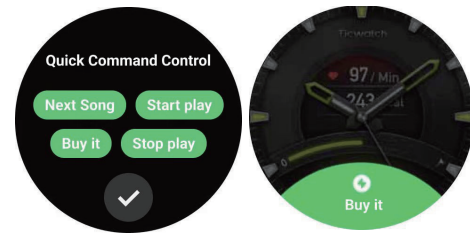
BUSINESS

- ***APPs for TicWatches***: As TicWatch is either based on Android OS or iOS, a user can download the "Ticwear" app from Appstore and connect their watches to phone device, and download apps from app stores and run them on TicWatch. This greatly enriches the application scenarios of TicWatch as any third-party developer can develop an App for TicWatch, just like in the Mobile phone industry. TicWatch is also preloaded with our own comprehensive health detection Apps, such as TicHealth, TicSleep, TicPulse, TicOxygen, TicZen and TicBreath, exercise related apps, such as TicExercise, marketplace App and TimeShow App. The charts below lists (i) the major apps and corresponding sample user interfaces; and (ii) the major charging apps and corresponding functions:

Apps	Sample UI
TicHealth A platform allows user to monitor health data synchronized from our TicExercise, TicPulse, TicOxygen, TicSleep, TicZen and TicBreath apps, which includes exercise, pulse, blood oxygen, sleep, stress and breath related data.	
TicSleep TicSleep could detect the sleep behavior and support sleep depth monitoring, including awake, rapid eye movement, light sleep, deep sleep, and bedridden time. It also supports nap detection. Users could review the data analysis, sleep quality score and set up a regular work and rest time schedule for more accurate sleep tracking.	
TicExercise Support more than 100 types of exercise, with user friendly layout. Provide rich data display with full functional sensor detection. Users could also trigger workout function through Xiaowen voice assistant.	
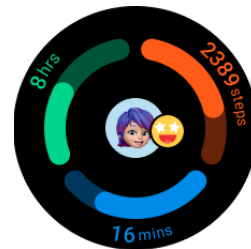
BUSINESS

Apps	Sample UI

TicPulse

Display the output of heart rate monitoring within 5 seconds. Support 24-hour monitoring from the backend and detect any unusual heart rate changes. Provide heart rate interval recommendation based on personal information.
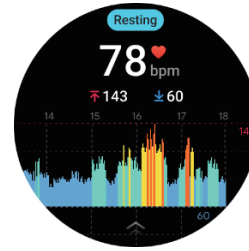
TicOxygen

Blood oxygen is becoming a much more important indicator to physical health. It supports blood oxygen saturation detection and 24h monitoring for users. It also provides users with suggestions for improvement.
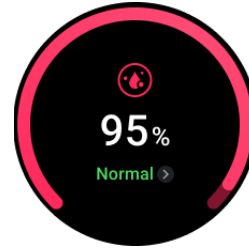
TicZen

TicZen tracks users' stress throughout the day, producing a stress score to offer insights into users' mental wellbeing. The photoelectric sensor in our TicWatch enables users to measure and track their heart rate variability which is often used as an indicator of physiological and psychological well-being.

TicBreath

TicBreath can guide users to release stress and regain inner peace through breathing training sessions by detecting the stress level and heartrate at the beginning and end of breathing training sessions.

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Apps	Sample UI

TimeShow

TimeShow is a marketplace for watch faces available on major App stores for smartwatches. It features both free and paid watch faces covering various categories of watch faces, from minimal watch faces, and animation watch faces to interactive gaming watch faces.

Sport & Health Data Platform

A digital platform for SmartWatch users to explore the data collected to gain more insights and better understand their body. Horizontal display of multiple exercise entries to allow users to identify the progress of each exercise and display of multiday health data to allow users to compare changes in body at different times.
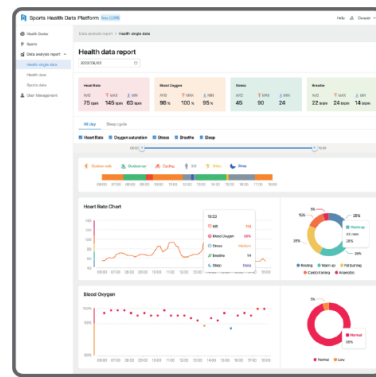
Major paid apps	Functionality
Xiaowen App Store	Users can download various free Wear OS applications. However, they are required to pay if they would like to enjoy more advanced applications. Paid applications include premium watch face, utility applications (such as translation and file management) and game applications.
TicSleep	Users can enjoy free basic functions including the detection of sleep behaviours (such as awake, rapid eye movement, light sleep and deep sleep). Free functions also support nap detection. Users can review the data analysis, sleep score and set up a regular work and rest time schedule for advanced sleep pattern tracking.
	Users can purchase advanced functions including sleep aid music albums.
TimeShow	Users can make in-application purchase for premium watch face. They can design and customize their own watch face by using TimeShow web-based design platform.

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- *Hardware for TicWatch*: In TicWatch, major hardware components include, among others, chipset platforms, wireless/GPS transceivers, sensors, display screens, audio receivers, antennae, and batteries. We design mechanics carefully to integrate these components altogether to offer a consumer-standard product to our end customers. We also develop board support package (BSP) drivers for these hardware components so that they can interact with the operating system. The key considerations in designing TicWatch hardware include long battery life, compactness (small, thin, lightweight, and with premium appearance), water-proof, and richness of functionalities (such as motion sensors, LTE and NFC).

The followings were the major awards and recognition that our TicWatch-series products had received up to the Latest Practicable Date:

Product	Awards and recognition	Grantor	Year
TicWatch E3	2021 Platinum Winner of the Muse Design Awards	Muse Awards Jurors	2021
TicWatch S2/E2/C2	2019 Red Dot Award (2019紅點獎)	Red Dot	2019
TicWatch Pro 4G LTE	2019 Good Design Award (2019 日本優良設計獎)	Japan Institute of Design Promotion	2019
TicWatch C2	2019 iF Design Award (2019年iF產品設計獎)	iF Industrie Forum Design	2019
TicWatch 3	2018 iF Design Award (2018年iF產品設計獎)	iF Industrie Forum Design	2018
TicWatch S	2017 iF Design Award (2017年iF產品設計獎)	iF Industrie Forum Design	2017
TicWatch S/E	2016 Good Design Award (2016 日本優良設計獎)	Japan Institute of Design Promotion	2016

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Consumer smart devices — Home Treadmill series

We develop and launch Home Treadmill series that are compatible with TicWatch under Mobvoi brand. As of the Latest Practicable Date, we had launched three generations of Home Treadmill with five SKUs in total for consumers.

Home Treadmill is a product that requires jointly optimizing software and hardware in order to provide the best user experience:

- *Hardware for Home Treadmill:* Home Treadmill has five-layered, water-resistant and anti-slip running belt which helps absorbing shock and pressure on the joints of the users during the workout. Equipped with remote control, the users can adjust the speed to change the workout mode from running to jogging instantly. Through the LED console, the users can view their performance via real-time feedback on their workout time, speed, distance and calories burnt. The Home Treadmill also has a special design which allows users to fine tune the treadmill incline up to 15 degree from the ground.

- *Software for Home Treadmill Mobvoi Treadmill App:* Home Treadmill is compatible with the Mobvoi Treadmill App on smartwatches (including TicWatch), allowing users to connect the treadmill with smart watches to enjoy real-time synchronization of live workout data. In pairing up the smart watches with the treadmill, the users cannot only monitor their heart rate, calories burned and pace, but also retrieving and recording workout data in distance, speed and duration.

The following was the major award and recognition that our Home Treadmill series products had received up to the Latest Practicable Date:

Product	Awards and Recognition	Grantor	Year
Mobvoi Home Treadmill Incline	Fitness Awards 2023	Health[1]	2023

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[1] Health was founded in 1981 as a publication focusing on a healthy lifestyle for women.

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The following table sets forth a summary of our Smart Devices and Other Accessories:

	TicWatch series	Home Treadmill series	Other AI-empowered hardware products and non-AI smart devices and accessories
Targeted customers ..	End consumers	End consumers	End consumers
Usage and functions .	Smartwatch	Treadmill for home use	Smart headphones, smart home products, and other smart watch accessories
Product life cycles ...	Tentatively 3-5 years	Tentatively 5-8 years	Tentatively 3-5 years
Selling price range ..	Approximately RMB250-3,000	Approximately RMB1,800-5,000	Approximately RMB30-1,000
Sales and distribution channels	Offline distributors, proprietary online stores (including both our official website and our stores on various e-commerce platforms) and various third-party online distribution platforms	Offline distributors, proprietary online stores (including both our official website and our stores on various e-commerce platforms) and various third-party online distribution platforms	Offline distributors, proprietary online stores (including both our official website and our stores on various e-commerce platforms) and various third-party online distribution platforms

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Our revenue from Smart Devices and Other Accessories during the Track Record Period was entirely attributable to the sale of smart hardware devices. The following table sets forth the number of our smart devices sold and their respective average selling price for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	Number of devices sold	Average selling price	Number of devices sold	Average selling price	Number of devices sold	Average selling price
	'000	RMB	'000	RMB	'000	RMB
TicWatch series...........................	295	993	169	933	109	1,129
Home Treadmill series(Note 1)............................	15	2,458	16	2,121	22	1,926
Other AI-empowered hardware products and non-AI smart devices and accessories(Note 2).......................	37	204	30	149	17	99
	347		215		148	

Notes:

1. Home Treadmill series were first launched and sold in 2020.

2. Other AI-empowered hardware products and non-AI smart devices and accessories include smart headphones, smart home products (such as smart speakers and lighting products) and accessories for our TicWatch series. Since 2019, we ceased the production of our smart speakers, of which the sales during the Track Record Period comprised the remaining inventory.

The decrease in the number of devices sold for our TicWatch series from approximately 295,000 in 2021 to approximately 169,000 in 2022 was resulted from the delay in launching of our new flagship TicWatch products in 2022. Meanwhile, the drop in the average selling price of our TicWatch series between 2021 and 2022 was due to depreciation of our older models while the launch of our new flagship TicWatch products had been delayed, offset by an increase in sales of our superior model TicWatch Pro 3 Ultra. The number of devices sold for our TicWatch series decreased from approximately 169,000 in 2022 to approximately 109,000 in 2023, primarily due to the delay of new product launch which affected the sales volume before May 2023. Meanwhile, the new product launch increased their average selling price rose from RMB933 to RMB1,129 for the same years. After the launch of our Home Treadmill series in 2020, the number of devices sold for our Home Treadmill series remained stable from 2021 to 2022 while their average selling price dropped in 2022 due to price reduction on older models upon the launch of new models. The number of devices sold for our Home Treadmill series increased from approximately 16,000 in 2022 to approximately 22,000 in 2023 due to the launch of a new model in late 2022 while their average selling price decreased from RMB2,121 to RMB1,926 for the same years due to as there

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was price reduction on older models upon the launch of new models. The number of other AI-empowered hardware products and non-AI smart devices and accessories sold decreased continuously over the Track Record Period primarily because we had ceased the production of our smart speakers since 2019 in order to shift our focus towards the development of our TicWatch series and Home Treadmill series, which offer higher profitability.

The following table sets forth our revenue from the segment of our Smart Devices and Other Accessories by geographical locations of end customers for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Mainland China	60,981	27,899	7,440
United States	58,506	30,545	24,035
United Kingdom	24,232	22,430	15,923
Italy	50,458	23,756	13,737
Spain	15,047	11,556	8,307
Germany	25,586	6,417	32,357
Japan	14,961	19,781	13,628
Brazil	7,222	12,954	11,414
Other countries or regions	81,402	41,968	36,972
Total	**338,395**	**197,306**	**163,813**

OUR STRATEGIC COLLABORATION

Technology Corporation A

Technology Corporation A is an international tech company specializing in internet-related products and services and an associate of one of our substantial Shareholders as of the Latest Practicable Date. In recognition of our strong research and development capabilities, Technology Corporation A maintained a strategic collaboration partnership with us from July 2015 till July 2023. Pursuant to the collaboration, we had developed and maintained certain pivotal functions available to original equipment manufacturers ("**OEMs**"), such as voice engine, application store as well as certain pre-loaded application software and third-party application software, who manufacture and launch wearable devices in China that use a baseline version of Technology Corporation A's operating system for wearable devices. In return, we were entitled to receive service fees from Technology Corporation A. We recognized revenue of RMB11.0 million, RMB20.1 million and RMB6.5 million attributable to our AI enterprise solutions segment from the strategic collaboration with Technology Corporation A for the years ended December 31, 2021,

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2022, and 2023, respectively. We also benefited from technical and marketing support from Technology Corporation A in the development and promotion of our proprietary smart watches. For example, we equipped our smart watches exported outside of China with standard version of operating system developed by Technology Corporation A, while Technology Corporation A agreed to pre-load our voice engine at OEM request in, as well as to recommend our application store as the preferred one for all PRC-launched products that were compatible with the Chinese version of its operating system for wearable devices, until Technology Corporation A was able to provide the relevant functions in China on its own. In addition, we also provided over-the-air update service for the smart watches equipped with the operating system for wearable devices developed by Technology Corporation A for service fee.

Set forth below are the salient terms of the strategic collaboration agreement (renewed from time to time) between the Group and Technology Corporation A:

Nature	Development of OEMs smart watches.
Contract sum	The total contract sum shall be renewed each year.
Revenue contribution	We recognized revenue of RMB11.0 million, RMB20.1 million and RMB6.5 million attributable to our AI enterprise solutions segment from the strategic collaboration with Technology Corporation A for the years ended December 31, 2021, 2022 and 2023, respectively.
Cost of sales contribution	Cost of sales of RMB1.6 million, RMB1.5 million and RMB0.5 million attributable to our AI enterprise solutions segment from the strategic collaboration with Technology Corporation A were incurred for the years ended December 31, 2021, 2022 and 2023, respectively.
Profit sharing	There is no profit sharing between the parties.
Role and responsibility of our Group	Our Group shall provide development and maintenance of certain pivotal functions available to OEMs, such as voice engine, application store as well as certain pre-loaded application software and third-party application software, who manufacture and launch wearable devices in China, of which our Group has all the ownerships.

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Role and responsibility of Technology Corporation A	Technology Corporation A shall provide its operating system to the Group for further development and shall pay service fees to the Group.
Termination	Both parties may agree on early termination of the arrangements based on mutual consent.

Due to a change in business strategy of Technology Corporation A and the fact that our Group will be able to serve Technology Corporation A's end customers directly, the collaboration between our Group and Technology Corporation A came to an end in July 2023 and our Group has negotiated to provide services directly to Technology Corporation A's end customers going forward.

The cessation of our collaboration with Technology Corporation A will not have any material impact on our business, as the amount of revenue from Technology Corporation A had not been significant and merely represented 2.8%, 4.0% and 1.3% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. In relation to the segment of Smart Devices and Other Accessories, the adoption of the standard version of operating system developed by Technology Corporation A is free to all smart watch developers and, as of the Latest Practicable Date, there was no circumstance that would lead to discontinuation of deploying such operating system in our smart devices.

Semiconductor Corporation A

Semiconductor Corporation A is a renowned multinational technology corporation that leads the global chipset market. It is also a pioneer in wireless technologies innovation and a market leader in development of technologies and ecosystems of AI smart devices. In recognition of our strong research and development capabilities, Semiconductor Corporation A has maintained a strategic collaboration relationship with us since 2016 to launch a series of TicWatch flagship products built upon its flagship wearable platforms.

We aim to combine Semiconductor Corporation A's world-leading platforms for AI smart devices with our innovative smart watch technologies to provide users with intelligent, power-saving and smooth smartwatch products. In 2020, Semiconductor Corporation A announced its self-developed wearable chipset platform — a powerful application processor to deliver super-fast performance and extended battery life to the platform. We were the first Wear OS smartwatch in the world to use this platform to build our TicWatch Pro 3. In 2022, Semiconductor Corporation A launched a more advanced wearable chipset platform — an application processor to deliver ultra-low power for extended battery life with high integration for sleek and innovative designs, and we made the first Wear OS smartwatch in the world to use this platform and built our

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TicWatch flagship product "— TicWatch Pro5." We are one of the market players in the world in building our TicWatch Pro 3 and launching of our TicWatch Pro 5 on the two aforesaid unique chipset platforms developed by Semiconductor Corporation A.

Our Smart Devices and Other Accessories have been widely recognized, highly anticipated and acclaimed by the market. The cooperation is aimed at integrating wearable processor from Semiconductor Corporation A with the innovative technology in our TicWatch, to provide a more power-saving, smarter and smoother smart watch device to our consumers. We believe that our partners' technical and marketing expertise will continue to help us to roll out innovative solutions in enhancing the intellectual level in users' interaction and better serve consumers with enhanced user experiences as well as frontier technologies in the AI industry, and ultimately enabling us to increase our market presence and market share in the AI industry.

Set forth below are the salient terms of the strategic collaboration agreement (renewed from time to time) between the Group and Semiconductor Corporation A:

Nature	Procurement of components.
Procurement amount	RMB17.3 million, RMB6.4 million and RMB13.0 million attributable to our Smart Devices and Other Accessories from the strategic collaboration with Semiconductor Corporation A had been paid to Semiconductor Corporation A for the years ended December 31, 2021, 2022 and 2023, respectively.
Profit sharing	There is no profit sharing between the parties.
Role and responsibility of our Group	Our Group shall (i) procure components from Semiconductor Corporation A and (ii) build our smartwatches in the chipset platforms launched by Semiconductor Corporation A.
Role and responsibility of Semiconductor Corporation A	Semiconductor Corporation A shall provide (i) components and (ii) necessary chipset platforms for the building of the Group's smartwatches.
Termination	Both parties may agree on early termination of the arrangements based on mutual consent.

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During the Track Record Period, Semiconductor Corporation A was the only supplier of central processor chipsets in our smart watches. Semiconductor Corporation A's consistent supply of their latest and cutting-edge chipsets for our smart watch development, as well as our longstanding relationship, serve as a testament to its recognition of our engineering and technical capabilities. Meanwhile, Semiconductor Corporation A has always been one of most reliable suppliers designated by Technology Corporation A to support its operating system and we will prioritize the maintenance of our relationship with Semiconductor Corporation A. Any change in our supplier of central processor chipsets for our smart watches may have a short-term impact on our segment of Smart Devices and Other Accessories. This one-off impact may arise from the need to re-perform integration work with the new chipset supplier, potentially extending the development process for future smart watches. However, we are of the view that the cessation of this collaboration is unlikely considering our longstanding collaboration with Semiconductor Corporation A, mutual recognition of capabilities and the absence of any issues with chipset supply since the commencement of such collaboration.

Impact of the COVID-19 pandemic

During the Track Record Period, the Group was required to deliver "pre-release builds" smartwatch devises to Technology Corporation A and Semiconductor Corporation A before launching of relevant products, in order to test and debug for the compatibility with relevant operating systems and/or chipset platforms. Due to the COVID-19 pandemic resulting in the restrictions on mobility, travel and social distancing, the Group's delivery of several "pre-release builds" smartwatch devises were prolonged and delayed which attributed to delay in testing and debugging, as well as the launching of some of the Group's flagship products. Nevertheless, such delays did not have a material long-term impact on the Group's strategic partnerships with Technology Corporation A and Semiconductor Corporation A.

Automotive Corporation Group

Before and during the Track Record Period, our Group had a series of collaborations with Automotive Corporation Group including establishing Mobvoi JV, conducting Series D [REDACTED] investments and entering into the IP rights arrangements with Automotive Sub A.

Series D-1 investment and establishment of Mobvoi JV in 2017

Since the inception of our Group, we have been dedicated to developing AI technologies with a particular focus on voice interaction algorithms, including NLP, voice recognition and search recommendation systems. At the same time, the Automotive Corporation Group, as a leading player of the automotive industry, had been laying out comprehensive plans for vehicle connectivity for years, with intelligence and voice interaction being key components of their

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strategy. Our Group's innovative voice-controlled in-car rearview mirror that provides navigation, instant messaging and a system responding to voice commands to enhance drivers' experience, showcased the potential of an integration of voice interaction with vehicles.

In recognition of the alignment of strategic interests, our Group and the Automotive Corporation Group reached an agreement to strategically invest, through Automotive Sub B, in our Company during our Series D round of fund-raising and purchased 288,779,294 Series D-1 Preferred Shares at a consideration of US$140.0 million on March 30, 2017. Furthermore, both parties agreed to form a 50-50 joint venture, namely, Mobvoi JV, with each contributing US$40 million (i.e. a total of US$80 million) as registered capital of Mobvoi JV. Pursuant to the relevant investment agreements entered between our Group and the Automotive Corporation Group, our Group agreed to cooperate solely and exclusively with the Automotive Corporation Group in the automotive domain (the "**Exclusivity Agreement**").

Based on the information available to our Company, at the time of the investment, the Automotive Corporation Group was focusing on vehicle connectivity and did not have a particularly profound control strategy over many software technologies, including AI. As such, investing as a minority investor and establishing a joint venture served the purpose, as it allowed exploration of AI integration into vehicles and created a dedicated platform for both parties to focus on this domain. The decision to each holding a 50% stake in Mobvoi JV provided flexibility for future strategic adjustments and exits for both parties. According to CIC, our industry consultant, joint venture was a common form of structure among the Automotive Corporation Group's business cooperation with different enterprises at that time.

Within this cooperation framework, our Group continued to focus on the fundamental AI backend technology, while Mobvoi JV dedicated its efforts towards the technology integration and project management of in-car systems. The overarching goal of this strategic cooperation was to realize the application of AI technology across various factories and car models within the Automotive Corporation Group.

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Mobvoi JV

(i)   Joint venture contract

Set forth below are the salient terms of the joint venture contract setting up Mobvoi JV:

Registered capital	The registered capital of Mobvoi JV was US$80 million, and each of our Group and Automotive Sub A shall contribute half of the registered capital of Mobvoi JV. The registered capital was fully paid by June 2017.
Roles and responsibilities of our Group	Our Group shall provide technical support to Mobvoi JV in AI backend technologies including speech recognition and NLP as well as the development of such AI backend technologies and new solutions.
Roles and responsibilities of Automotive Sub A	Automotive Sub A shall provide, among others, sales and marketing support and contribute channel connections and distribution efforts to Mobvoi JV.
Voting rights structure	*Voting rights of the shareholders of Mobvoi JV* Each shareholder shall have the voting rights pro rata to the fully-paid registered capital that it holds. *Board of directors of Mobvoi JV* Each party to the joint venture contract shall nominate three directors (i.e. a total of six directors), each of whom carried one vote at board meetings. There was no casting vote at board meetings.

(ii)   Nature and function of products and services provided by Mobvoi JV

Prior to our Group's disposal of equity interests in Mobvoi JV (the "**Disposal**"), details of which are set out in the paragraph headed "Exit of Series D investment and disposal of Mobvoi JV" below, the principal business of Mobvoi JV was to provide software solutions by applying our Group's AI technologies into the Automotive Corporation Group's pre-installed car head units. Mobvoi JV, in its early years of operations, devoted significant time, resources and efforts in the development of speech dialogue system ("**SDS**") solutions utilizing our Group's AI technologies, which enable human-to-machine communication through spoken

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language, coupled with the underlying backend technology and various add-on features such as voiceprint recognition, personized push and in-vehicle infotainment system. The SDS developed via Mobvoi JV's research and development ("**R&D**") activities were to only be installed in vehicles bearing the brands owned by the Automotive Corporation Group.

(iii) Solutions and services provided by our Group to Mobvoi JV prior to the Disposal

Our Group provided general backend voice AI research and development support and services for various non-recurring engineering ("**NRE**") projects primarily related to SDS to Mobvoi JV. Fee was charged and determined based on a combination of factors such as project volume and the expected number of work hours required for each project.

Set forth below are the salient terms of our NRE agreements with Mobvoi JV:

Scope of services	Research and development services for various NRE projects related to SDS for use in Automotive Corporation Group's vehicles. The aim of the NRE projects on SDS was to enable human-to-machine communication through spoken language. In addition, we were contracted for certain add-on features such as multiple languages and dialects, personized push, GPS and in-vehicle infotainment system.
Duration	The contract period ranged from nine months to 17 months.
Contract amount	The contract amount ranged from RMB0.2 million to RMB42.2 million.
Roles and responsibility of our Group	We shall deliver to Mobvoi JV certain deliverables within the service period. In addition to the backend technology, we may provide onsite support and related training to Mobvoi JV.
	We shall complete rectification required by Mobvoi JV after its inspection of our deliverables within the rectification time limit.

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Roles and responsibility of Mobvoi JV	Mobvoi JV shall inspect the deliverables after receiving them from our Group. After inspection, Mobvoi JV shall issue certificate of receipt, certificate of receipt with rectification requirements and rectification time limit or certificate of rejection with rectification time limit.
Payment arrangement	Payment shall be paid by Mobvoi JV on or before the dates specified following Mobvoi JV's inspection and issuance of the certificate of receipt.

(iv) Customers and suppliers of Mobvoi JV

As the SDS developed by Mobvoi JV was to only be installed in the Automotive Corporation Group's brand of vehicles, the customers of Mobvoi JV were primarily vehicle manufacturers which are subsidiaries or associated companies of the Automotive Corporation Group, such as its OEMs.

Based on the information available to our Company, the suppliers of Mobvoi JV included a number of R&D service providers and independent content providers. Our Group was the main provider of general backend voice AI research and development services for various NRE projects related to SDS. There were a few other R&D service suppliers providing in-car electrical systems and modules to Mobvoi JV. Content providers refer to companies that create or supply digital content such as music, news, entertainment, dining, delivery, travel and other services for use by Mobvoi JV in SDS.

Series D-2 investment in 2019

Recognizing our Group's know-how and commercial potential in developing tailored AI solutions, the Automotive Corporation Group decided to further invest in our Company, and on September 22, 2019, Automotive Sub B purchased 30,940,658 Series D-2 Preferred Shares at a consideration of US$15.0 million. The **[REDACTED]** satisfied the funding needs of our Group to further invest in our R&D at that time.

Exit of Series D investments and disposal of Mobvoi JV

Based on the information available to us, in or around 2020, the Automotive Corporation Group underwent a comprehensive software strategy transformation, proclaiming a shift from a traditional car manufacturer to a new-age automaker with electric and software-defined vehicles at

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its core. Accordingly, the Automotive Corporation Group decided to devote more focus and resources and establish direct connections with software. Various software strategies were established during that period.

At this point of time, the automotive SDS technology and intellectual property ("**IP**") accumulated by our Group were to a certain extent constrained due to the Exclusivity Agreement, limiting potential collaboration and commercialization opportunities with other automakers.

Therefore, both parties realised that there was a need for strategic adjustments to the cooperation.

Under such circumstances, a friendly negotiation took place. Due to strategic consideration and based on arms' length negotiations, in late 2021, the parties agreed that the Automotive Corporation Group would acquire Mobvoi JV in its entirety, while our Company would repurchase all of the Automotive Corporation Group's Shares in our Company and the parties agreed to terminate the Exclusivity Agreement. Such arrangement would allow our Group to leverage our core technology and IP for cooperation with other automakers. The Disposal was subsequently completed in March 2022 and Automotive Sub B ceased to be a Shareholder in September 2022. The Exclusivity Agreement contained in the relevant investment agreements entered into between the Company and Automotive Sub B was terminated following the exit of Automotive Sub B as a Shareholder.

After the Disposal, our Group have not entered into any new transactions with Mobvoi JV, save for a few NRE projects that were commenced prior to the Disposal. Those NRE projects were all completed in 2023 and the revenue from such projects was fully recognized in the same year.

Notwithstanding the above, without the Exclusivity Agreement which has been terminated as a result of the Disposal, our Group believes that we will be able to establish business collaborations with other automakers.

IP rights arrangements with Automotive Sub A

Following our Group's exit from Mobvoi JV, the Automotive Corporation Group wished to explore other approaches to gain access to the AI backend technologies of our Group's automotive SDS to support its in-vehicle solutions. Accordingly, the parties agreed to enter into a series of IP rights arrangements, through which the Automotive Corporation Group would obtain co-ownership rights to the relevant IPs but could only apply these IPs in vehicle projects under the Automotive Corporation Group of brands.

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As a result of the foregoing, the collaboration between our Group and the Automotive Corporation Group has changed from a joint venture, whereby our Group provided R&D support and services to Mobvoi JV for it to develop AI in-vehicle solutions for installation in the Automotive Corporation Group brands of vehicles, to entering into a series of IP rights arrangements, whereby the Automotive Corporation Group obtained co-ownership of the underlying IP rights with respect to the AI backend technology for use in the Automotive Corporation Group's vehicle projects.

In terms of the type of services provided, the cooperation is different in form of a joint venture and under the IP rights arrangements:

Form of cooperation	Joint venture	IP rights arrangements with Automotive Sub A
Contract scope	The scope of services provided by our Group to Mobvoi JV includes R&D support and services for various NRE projects related to SDS for use in the Automotive Corporation Group's vehicles. The aim of the NRE projects on SDS was to enable human-to-machine communication through spoken language. In addition, the projects might be contracted for certain add-on features such as voiceprint recognition, multiple languages and dialects, personized push, GPS and in-vehicle infotainment system.	The IP rights arrangements with Automotive Sub A mainly involves transfer of IPs that were generated in the course of our Group's development of AI backend technologies. These IPs could be those that were created in the course of our Group's provision of R&D support and services to Mobvoi JV in connection with NRE projects. By obtaining the co-ownership right to such IPs, the Automotive Corporation Group could subsequently upgrade or adapt the same to fit in its specific needs.

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Form of cooperation	Joint venture	IP rights arrangements with Automotive Sub A
IP rights	The IP rights that were generated through the NRE projects with Mobvoi JV were automatically authorized for use by the Automotive Corporation Group and were subject to the Exclusivity Agreement.	Under the IP rights arrangements, the IP rights developed and owned by our Group were "shared" with the Automotive Corporation Group through the co-ownership arrangement. Our Group is not subject to any exclusivity constraint whereas the Automotive Corporation Group cannot license such IPs to any third party for use in new projects which had not started as at the date of the IP rights arrangement agreement.
Pricing basis	The pricing basis for the R&D solutions provided by our Group to Mobvoi JV was determined based on project volume and expected work hours, plus margin.	The contract sum was based on the value of the IPs assessed by our Group, as well as the expected costs for the ancillary services, which are primarily one-off services including system maintenance and configuration.

For the salient terms of the IP rights arrangements with Automotive Sub A, please refer to the paragraph headed "— Our Solutions — AI Software Solutions — AI enterprise solutions — IP rights arrangements with Automotive Sub A" in this section.

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Chronology of events

Set out below is a chronology of major events summarising our collaboration with the Automotive Corporation Group:

Date	Event
March 2017	Automotive Sub B acquired 288,779,294 Series D preferred shares of the Company at a consideration of US$140.0 million.
March 2017	Mobvoi HK established Mobvoi JV with Automotive Sub A.
September 2019	All the Series D preferred shares held by Automotive Sub B was reclassified and redesignated to Series D-1 preferred shares of the Company.
September 2019	Automotive Sub B acquired 30,940,658 Series D-2 preferred shares of our Company at a consideration of US$15.0 million.
September 2020	Mobvoi Limited voluntarily transferred 69,677,483 ordinary Shares to Automotive Sub B at nil consideration to prevent the shareholding of Automotive Sub B from being diluted as a result of the allotment and issuance of ordinary Shares to the sellers in our Group's acquisition of Geekstar and Zhixue which took place in September 2020.
October 2021	Our Company executed a framework agreement with Automotive Sub A.
October 2021	Our Group executed a series of IP arrangement agreements with Automotive Sub A for granting the co-ownership rights of the Relevant IPs to Automotive Sub A.
December 2021	Mobvoi HK executed equity transfer agreement with Automotive Sub A for selling its equity interests in Mobvoi JV to Automotive Sub A.
December 2021	Our Company executed a share repurchase agreement with Automotive Sub B to repurchase all the 69,677,483 ordinary Shares, 288,779,294 Series D-1 preferred shares and 30,940,658 Series D-2 preferred shares of our Company from Automotive Sub B.
March 2022	Our Company disposed all of its equity interests in Mobvoi JV to Automotive Sub A.

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Date	Event
September 2022	Our Company completed the repurchase of all the 69,677,483 ordinary Shares, 288,779,294 Series D-1 preferred shares and 30,940,658 Series D-2 preferred shares of our Company from Automotive Sub B.
June 2023	The IP rights arrangement project with Automotive Sub A was completed.

OUR CUSTOMERS

Our customers primarily consist of (i) content creators who purchase our AIGC solutions; (ii) enterprises to whom we sell our AI enterprise solutions; (iii) consumers who purchase our Smart Devices and Other Accessories and (iv) online and offline distributors to whom we sell our Smart Devices and Other Accessories. For each of the years ended December 31, 2021, 2022 and 2023, our revenue generated from our five largest customers accounted for 37.0%, 62.8% and 49.9% of our revenue, respectively, while our revenue generated from our largest customer for each of the years ended December 31, 2021, 2022 and 2023, accounted for 24.1%, 42.6% and 27.4% of our revenue, respectively. We granted credit terms of up to 90 days to our five largest customers upon their acceptance of products or delivery of solutions, and generally settled with them by bank transfer.

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Our five largest customers

Set out below is a breakdown of our revenue derived from our top five customers during each year of the Track Record Period and their respective background information:

For the year ended December 31, 2021:

Rank	Customer	Profile and scale of operations	Services provided	Approximate year(s) of relationship	Sales amount	Percentage of total revenue
					(RMB'000)	*(%)*
1	Customer A	Customer A comprises a group of subsidiaries of a US-based international e-commerce platform operator, which principally engages in the provision of retail and e-commerce related services. It had revenue of approximately USD513.9 billion and more than 1.5 million employees in 2022.	Smart Devices and Other Accessories	4 years	95,748	24.1
2	Customer B	Customer B is a leading retailer headquartered in the PRC. Established in 2007, Customer B primarily engages in wholesaling of computing software and hardware and auxiliary equipment, sales of machinery and equipment, sales of household appliances, wholesaling of electronic components, wholesaling of hardware products and sales of electronic products. It has a registered capital of approximately US$1.4 billion and currently has more than 10,000 employees.	Smart Devices and Other Accessories	9 years	17,397	4.4

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Rank	Customer	Profile and scale of operations	Services provided	Approximate year(s) of relationship	Sales amount	Percentage of total revenue
					(RMB'000)	*(%)*
3	Mobvoi JV	Mobvoi JV was incorporated in 2017 and is based in the PRC. It principally engages in provision of software and information technology services including in-vehicle AI solutions. It was a related party of our Group. For details, please refer to note 36 to the Accountants' Report set out in Appendix I to this document.	In-vehicle AI Software Solutions	6 years	16,200	4.1
4	Technology Corporation A	Technology Corporation A is a wholly owned subsidiary of a US-based international technology group which was incorporated in 1998 and primarily engages in search engine technologies, cloud computing, online advertising technologies, and research and development of web-based products and services. It had a revenue of approximately US$282.8 billion and more than 190,000 employees in 2022. It is a related party of our Group. For details, please refer to note 36 to the Accountants' Report set out in Appendix I to this document.	Over-the-air operation system services and Smart Devices and Other Accessories	7 years	10,973	2.8
5	Customer C	Customer C is a PRC-based company incorporated in 2015 and principally engages in e-commerce marketing consultancy services, technology consultancy services and investment in consumer brands. It has a registered capital of RMB5.0 million.	Smart Devices and Other Accessories	4 years	6,219	1.6
				Total:	146,537	37.0

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For the year ended December 31, 2022:

Rank	Customer	Profile and scale of operations	Services provided	Approximate year(s) of relationship	Sales amount	Percentage of total revenue
					(RMB'000)	(%)
1	Automotive Sub A . . .	Automotive Sub A is a subsidiary of an international automobile manufacturer headquartered in Germany. Automotive Sub A principally engages in the sales of automotive. It had revenue of approximately EUR279.2 billion in 2022. It was a related party of our Group. For details, please refer to note 36 to the Accountants' Report set out in Appendix I to this document.	AI enterprise solutions and IP rights arrangement	6 years	212,956	42.6
2	Customer A	Customer A comprises a group of subsidiaries of a US-based international e-commerce platform operator, which principally engages in the provision of retail and e-commerce related services. It had revenue of approximately USD513.9 billion and more than 1.5 million employees in 2022.	Smart Devices and Other Accessories	4 years	65,900	13.2
3	Technology Corporation A	Technology Corporation A is a wholly owned subsidiary of a US-based international technology group which was incorporated in 1998 and primarily engages in search engine technologies, cloud computing, online advertising technologies, and research and development of web-based products and services. It had a revenue of approximately US$282.8 billion and more than 190,000 employees in 2022. It is a related party of our Group. For details, please refer to note 36 to the Accountants' Report set out in Appendix I to this document.	Over-the-air operation system services and Smart Devices and Other Accessories	7 years	20,121	4.0

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Rank	Customer	Profile and scale of operations	Services provided	Approximate year(s) of relationship	Sales amount	Percentage of total revenue
					(RMB'000)	*(%)*
4	Customer B	Customer B is a leading retailer headquartered in the PRC. Established in 2007, Customer B primarily engages in wholesaling of computing software and hardware and auxiliary equipment, sales of machinery and equipment, sales of household appliances, wholesaling of electronic components, wholesaling of hardware products and sales of electronic products. It has a registered capital of approximately US$1.4 billion and currently has more than 10,000 employees.	Smart Devices and Other Accessories	8 years	8,048	1.6
5	Sparky Create Inc ...	Sparky Create Inc is a Japan-based company incorporated in 2015 and principally engages in distribution of electrical appliances and wholesaling of goods. It has a registered capital of JPY3.0 million.	Smart Devices and Other Accessories	5 years	7,244	1.4
				Total:	314,269	62.8

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For the year ended December 31, 2023:

Rank	Customer	Profile and scale of operations	Services provided	Approximate year(s) of relationship	Sales amount	Percentage of total revenue
					(RMB'000)	*(%)*
1	Automotive Sub A . . .	Automotive Sub A is a subsidiary of an international automobile manufacturer headquartered in Germany. Automotive Sub A principally engages in the sales of automotive. It had revenue of approximately EUR279.2 billion in 2022. It was a related party of our Group. For details, please refer to note 36 to the Accountants' Report set out in Appendix I to this document.	AI enterprise solutions and IP rights arrangement	6 years	138,752	27.4
2	Customer A	Customer A comprises a group of subsidiaries of a US-based international e-commerce platform operator, which principally engages in the provision of retail and e-commerce related services. It had revenue of approximately USD513.9 billion and more than 1.5 million employees in 2022.	Smart Devices and Other Accessories	4 years	59,523	11.7
3	Mobvoi JV.	Mobvoi JV was incorporated in 2017 and is based in the PRC. It principally engages in provision of software and information technology services including in-vehicle AI solutions. It was a related party of our Group. For details, please refer to note 36 to the Accountants' Report set out in Appendix I to this document.	In-vehicle AI Software Solutions	6 years	41,127	8.1
4	Customer D	Customer D was founded in 1950. It ranked third among the manufacturers of optics, jewelry and watches category in Brazil in 2022.	Smart Devices and Other Accessories	6 years	7,019	1.4

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Rank	Customer	Profile and scale of operations	Services provided	Approximate year(s) of relationship	Sales amount	Percentage of total revenue
					(RMB'000)	*(%)*
5	Technology Corporation A	Technology Corporation A is a wholly owned subsidiary of a US-based international technology group which was incorporated in 1998 and primarily engages in search engine technologies, cloud computing, online advertising technologies, and research and development of web-based products and services. It had a revenue of approximately US$282.8 billion and more than 190,000 employees in 2022. It is a related party of our Group. For details, please refer to note 36 to the Accountants' Report set out in Appendix I to this document.	Over-the-air operation system services and Smart Devices and Other Accessories	7 years	6,510	1.3
					252,931	49.9

Except for Technology Corporation A, Mobvoi JV, Automotive Sub A, all of our five largest customers during the Track Record Period had been Independent Third Parties. To the knowledge of our Directors, during the Track Record Period, none of our Directors or any Shareholders owning more than 5% of our issued share capital immediately following the completion of the **[REDACTED]** (assuming (i) the **[REDACTED]** is not exercised; (ii) without taking into account any Shares that may be issued under the **[REDACTED]** Share Option Scheme; and (iii) each Preferred Share is converted into one Share) nor any of their respective associates had any interest in any of our five largest customers, except for an associate of Technology Corporation A.

Major terms of our long-term agreements

Please refer to the paragraph "— Sales and distribution networks — Distribution model — Major terms of agreements with distributors" in this section.

Customer services

Providing great customer service is of high priority to us. Our commitment to customers and their end users is reflected in the high levels of service provided by our customer service staff as well as in our product return and exchange policies. Among our sales and marketing staffs, 22 of them are responsible for customer services, as of December 31, 2022. Our customer service center handles queries and complaints from our customers and their end users regarding our product and

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service solutions. Customers and their end users can make queries on our product and service solutions as well as file complaints around the clock by various means, such as a customer service hotline, online chatting with certain sales channels (such as e-commerce platforms) and leaving messages on our official website. We also provide system maintenance for some of our AI enterprise solutions. Depending on the specific queries or complaints, our customer service representatives answer questions, offer detailed instructions, initiate after-sale procedures, or transfer such queries or complaints to relevant functional departments (such as the research and development department and sales and marketing department) as appropriate. Our customer service representatives are required to complete training on solution knowledge, after-sale policies, communication skills and complaint handling procedures.

Product Returns, Exchanges and Warranties

Product Returns and Exchanges

Direct Sales

In China, we typically allow customers to return our products that are not made-to-order within seven days or 30 days upon customer acceptance. For certain limited products where we allow return only if the packages of the products are intact, and we typically allow customers to exchange any products within 15 days from the date of sale. Meanwhile, we generally allow overseas customers to return our products purchased through direct sales for any reason within 30 days from the date of purchase.

Distributors

Generally, we only accept returns in China covered by the Interim Measures for Seven-Day Unconditional Return of Products Purchased Online (《網絡購買商品七日無理由退貨暫行辦法》), which came into effect on March 15, 2017, and was revised on October 23, 2020, and returns with quality issues, and do not allow return of unsold products.

For certain distributors with whom we have built a long business relationship, we may allow them to return all or part of unsold products, in exchange for vast customer base brought by such distributors. During the Track Record Period, there were two distributors with such rights.

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The following table sets forth the revenue contributed by, returns made by, and the amount of provision for returns made for such distributors with rights to return all or part of unsold products during the Track Record Period:

| | For the year ended December 31, | | | | | | | | |
| | 2021 | | | 2022 | | | 2023 | | |
	Revenue	Returns	Provision for returns	Revenue	Returns	Provision for returns	Revenue	Returns	Provision for returns
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Customer A(Note)	95,748	(7,404)	11,939	65,900	(19,261)	19,819	79,358	(19,835)	21,150
Customer B(Note)	17,397	(6,980)	8,681	8,048	(3,346)	2,944	3,110	(1,386)	1,397
	113,145	(14,384)	20,620	73,948	(22,607)	22,763	82,468	(21,221)	22,547

Note: Customer A was one of our five largest distributors for each year during the Track Record Period. Customer B was among our five largest distributors for the years ended December 31, 2021 and 2022. Regarding the amounts of returns made by these two distributors, the amounts attributable to Customer A reflect unsold returns only, given the business nature and that the Group's contract terms with Customer A only allow unsold returns arising from seasonal stock management, whereas the amounts attributable to Customer B consisted of (i) unsold returns generated from its internal stock management and sales planning, and (ii) returns generated from its after sales services.

The following table sets forth the balance of accumulated provision for returns made for Customer A and Customer B as of the dates indicated:

| | As of December 31, | | |
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Customer A	4,910	5,468	5,866
Customer B	4,953	4,551	5,479
	9,863	10,019	11,345

For the years ended December 31, 2021, 2022 and 2023, the total value of returned products from all distributors, including the unsold returns, amounted to RMB19.7 million, RMB25.0 million and RMB22.4 million, respectively. The total provision of returns from all distributors amounted to RMB14.7 million, RMB16.0 million and RMB18.3 million for the years ended December 31, 2021, 2022 and 2023, respectively. Our Group offers warranties for our Smart Devices and Other Accessories under sales agreements. We had therefore made provision for warranties in best estimate approach. For details, please refer to note 32 to the Accountants'

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Report in Appendix I to this document. As of December 31, 2021, 2022 and 2023, we had provision balance of RMB15.4 million, RMB16.5 million and RMB18.5 million, respectively, for potential claims of product return and other warranties.

Product warranties

We typically offer a limited warranty for our products, with warranty periods from 12 to 24 months from the date of sale, depending on the countries and regions where our products are sold.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material complaint or product liability or other legal claims from our customers or end users due to problems associated with the quality of our products.

We have also established product recall procedures with reference to applicable laws and regulations, and have prescribed recall guidelines and processes, which specify responsible persons to notify upon a recall and the handling procedure of the recalled products. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any product recall from our customers or end users due to quality problems.

OUR SUPPLIERS

Our suppliers primarily consist of suppliers of hardware components and raw materials, contract manufacturers, providers of cloud services and servers, suppliers of data sources, and service providers of warehouse and logistic services. Our major suppliers are mostly situated in China. For each of the years ended December 31, 2021, 2022 and 2023, our purchases from our five largest suppliers accounted for 32.7%, 24.3%, and 20.3% of our total costs of sales, respectively, while our purchase from our largest supplier accounted for 11.4%, 9.7% and 5.7%, respectively, of our costs of sales for the same years. Our five largest suppliers generally require prepayment and/or provide us with up to 30 days of credit period and we generally settle with them by bank transfer.

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Our five largest suppliers

Set out below is a breakdown of our top five suppliers during each year of the Track Record Period and their respective background information:

For the year ended December 31, 2021:

Rank	Supplier	Principal business activities	Products or Services purchased	Approximate year(s) of relationship	Purchase amount	Percentage of total costs of sales
					(RMB'000)	*(%)*
1	Lixun	Manufacturing of electronic parts and components	Product assembly services	5 years	42,608	11.4
2	Supplier A	Development, manufacturing and sales of fitness equipment	OEM for Home Treadmill	4 years	26,489	7.1
3	Shenzhen Youchuangyi Technology Co., Ltd. . .	Development, manufacturing and sales of Bluetooth technologies related AI-empowered hardware products	Design and development of smart watch	4 years	17,940	4.8
4	Supplier B	Distribution of electronic parts and components	Storage chips, sensors and integrated circuits	5 years	17,639	4.7
5	Shenzhen Hengcheng Technology Co., Ltd. . .	Development, manufacturing and sales of electronic parts and components	Display screens and modules	5 years	17,440	4.7
				Total:	122,116	32.7

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For the year ended December 31, 2022:

Rank	Supplier	Principal business activities	Products or Services purchased	Approximate year(s) of relationship	Purchase amount	Percentage of total costs of sales
					(RMB'000)	*(%)*
1	Supplier A	Development, manufacturing and sales of fitness equipment	OEM for Home Treadmill	4 years	23,474	9.7
2	Lixun	Manufacturing of electronic parts and components	Product assembly services	5 years	12,820	5.3
3	Shenzhen Youchuangyi Technology Co., Ltd. . .	Development, manufacturing and sales of Bluetooth technologies related AI-empowered hardware products	Design and development of smart watch	4 years	9,109	3.7
4	Supplier B	Distribution of electronic parts and components	Storage chips, sensors and integrated circuits	7 years	6,967	2.9
5	Supplier C	Manufacturing of touchscreen	Touchscreen	8 years	6,462	2.7
				Total:	58,832	24.3

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For the year ended December 31, 2023:

Rank	Supplier	Principal business activities	Products or Services purchased	Approximate year(s) of relationship	Purchase amount	Percentage of total costs of sales
					(RMB'000)	*(%)*
1	Supplier A	Development, manufacturing and sales of fitness equipment	OEM for Home Treadmill	4 years	19,125	5.7
2	Supplier C	Manufacturing of touchscreen	Touchscreen	8 years	14,053	4.2
3	Semiconductor Corporation A	Design and manufacturing of mobile communication chips	Chipsets	8 years	12,972	3.8
4	Supplier B	Distribution of electronic parts and components	Storage chips, sensors and integrated circuits	7 years	11,886	3.5
5	Lixun	Manufacturing of electronic parts and components	Product assembly services	5 years	10,357	3.1
					68,393	20.3

Notes:

1. Lixun comprises Luxin Electronic Technology (Kunshan) Co., Ltd and Huzhou Lixun Precision Industry Ltd which are subsidiaries of a PRC-based company incorporated in 2004 and principally engages in manufacturing of electronic parts and components. It had registered capital of approximately RMB7.1 billion and 240,000 employees in 2022.

2. Supplier A is a PRC-based company incorporated in 2016 and principally engages in development, manufacturing and sales of fitness equipment. It had revenue of approximately RMB0.2 billion and 880 employees in 2023.

3. Shenzhen Youchuangyi Technology Co., Ltd is a PRC-based company incorporated in 2012 and principally engages in development, manufacturing and sales of Bluetooth technologies related AI-empowered hardware products. It had revenue of approximately RMB0.3 billion and 200 employees in 2023.

4. Supplier B is a PRC-based company incorporated in 1993 and principally engages in distribution of electronic parts and components. It had revenue of approximately US$1.4 billion and 650 employees in 2023.

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5. Shenzhen Hengcheng Technology Co., Ltd is a PRC-based company incorporated in 2003 and principally engages in development, manufacturing and sales of electronic parts and components. It had revenue of approximately RMB0.2 billion and 53 employees in 2023.

6. Supplier C is a PRC-based company incorporated in 2015 and principally engages in manufacturing of touchscreen. It had revenue of approximately RMB0.2 billion and 300 employees in 2023.

7. Semiconductor Corporation A is a subsidiary of a US-based international semiconductor manufacturer incorporated in 1985 and principally engages in design and manufacturing of mobile communication chips. The US-based international semiconductor manufacturer had revenue of approximately US$44.2 billion in 2022.

To the best of our knowledge, none of the Directors or Shareholders or any of their respective associates had any interests in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

MARKETING

Our marketing team and sales team are jointly responsible for the design and implementation of our marketing strategies and campaigns, as well as logistic arrangement and customer service in and outside of China. We believe that in-house sales and marketing staff with a relatively high level of industry knowledge and expertise are important to implement our sales and marketing strategies and maintain our reputation and brand image. As of December 31, 2023, our marketing team and our sales team had a total of 21 and 37 employees, respectively. For the years ended December 31, 2021, 2022 and 2023, our selling and marketing expenses amounted to RMB105.9 million, RMB97.1 million and RMB150.7 million, respectively, representing 26.6%, 19.4% and 29.7% of our revenue during the same years, respectively.

We have implemented our marketing strategies and campaigns through various channels, primarily through advertisement on major internet platforms, electronic direct mail marketing, telemarketing and KOL marketing. As of the Latest Practicable Date, none of the KOLs engaged by us had entered into a contract with us to resell our AIGC solutions and AI-empowered hardware products and therefore such KOLs were not classified as our distributors.

We have a dedicated online marketing team focusing on the development of online marketing and advertising campaigns through various channel. We work with e-commerce platforms and participate in special sales events organized by these online platforms. For instance, we participated in the Prime Day, Black Friday and Cyber Monday campaigns on Amazon and 618 campaign on AliExpress. We generally participate in the sales activities organized by the e-commerce platform and utilize online resources such as live streaming and recorded videos to illustrate our solutions. Our online marketing activities on e-commerce platforms provide us with opportunities to effectively interact with customers, enable us to collect sales data and allow us to promptly respond to changes in customers' demands. As of the Latest Practicable Date, our

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proprietary online stores on various e-commerce platforms had attracted over one million followers. We also deploy advertising campaigns through social media platforms utilizing consumer portrait and engagement of search engine companies to market our brands or to promote our new solutions. Apart from online marketing, we also market our solutions to specific clients by electronic direct mail and utilize commercial advertisements on magazines.

To capture a larger market share, we also engage channel partners, such as online e-commerce platforms and enrichment course providers, to promote our solutions and smart devices within their own business activities.

Set forth below are the salient terms of the contracts with our channel partners during the Track Record Period:

Scope of service	A channel partner shall promote our solutions or smart devices to end users through its own channels or platforms.
	The channel partner shall be entitled to a channel fee for the services. The amount of channel fees payable is pre-determined based on various factors, including but not limited to:
	(i) type of solutions or products sold;
	(ii) sales amount; and/or
	(iii) performance of the channel partner, such as the total sales amount generated through the channel partner.
Roles, rights and obligations of our Group	Our Group shall have the right to make necessary adjustments to product strategy, market strategy, pricing strategy and market orders based on market demands.
Roles, rights and obligations of our channel partners	Our channel partners shall earn channel fees through promotion of our solutions or products.

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Payment arrangement

For the solutions and products promoted by our channel partners, our end users shall pay directly to us. Upon receipt of payment from end users, the channel fees associated with the relevant sales shall be accrued and settled in the following month.

The channel fees shall be settled on a monthly basis.

SALES AND DISTRIBUTION NETWORK

During the Track Record Period, we only engaged distributors for selling our smart devices. We believe it is an industry norm to adopt an online and offline sales and distribution model to operate efficiently and to increase sales of our Smart Devices and Other Accessories. The following table sets out our various distribution channels and their respective revenue contribution of Smart Devices and Other Accessories during the Track Record Period:

| | For the year ended December 31, | | | | | |
| | 2021 | | 2022 | | 2023 | |
	RMB'000	%	RMB'000	%	RMB'000	%
Smart Devices and Other Accessories						
Direct sales	158,775	46.9	87,173	44.2	78,884	48.2
Distributors	179,620	53.1	110,133	55.8	84,929	51.8
Total	338,395	100.0	197,306	100.0	163,813	100.0

For the years ended December 31, 2021, 2022 and 2023, revenue generated from our distributors was RMB179.6 million, RMB110.1 million and RMB84.9 million, respectively, and accounted for 53.1%, 55.8% and 51.8% of our revenue from Smart Devices and Other Accessories, respectively. Revenue from these distributors is recognized upon the transfer of control of the products or at the time of sale of solutions. In addition, we use an expected value approach to estimate the amount of return and volume rebates.

During the Track Record Period, we had conducted sales of (i) our AIGC solutions primarily through our website (including redirections from various social media platforms), and (ii) our Smart Devices and Other Accessories through offline distributors, our proprietary online stores (including both our official website and our stores on various e-commerce platforms) and various third-party online distribution platforms. In China, users can purchase our products directly from our website. For international markets, our website serves as the centralized platform for users to learn about our products. Our website allows customer to discover, review, select and purchase our products quickly and efficiently. Our website also makes product recommendations and compare

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specification of different products for customers. We strive to provide customers with customized shopping experience by analyzing and understanding their transaction histories and browsing patterns on our website so as to increase customer stickiness and enhance recurring sales opportunities. To enhance brand awareness among younger generations, and to engage directly with customers, we launched our proprietary online stores since 2018. During the Track Record Period, we had engaged various social media platforms, such as WeChat (through the WeChat mini-program) and Douyin, in order to increase the visibility of our AIGC solutions.

For our AIGC solutions, these social media platforms play a role in increasing the exposure of our solutions. Where end consumers elect to subscribe to our AIGC solutions or purchase add-on premium functions, these platforms will redirect them to our website for payment processing via commonly used digital payment platforms in China. Service fee is charged based on general pricing policies set by social media platforms and we do not enter into separate agreements with them. Fees charged by us to our end consumers vary depending on the AIGC platforms our users subscribe to, the subscription period and the price of any add-on premium functions. Sales proceeds are settled with our Group in real time after deducting any service fee payable to social media platforms. For the years ended December 31, 2021, 2022 and 2023, the service fee charged by social media platforms ranged from 0.6% to 2%, 0.54% to 2% and 0.54% to 2% of the total transaction value and amounted to RMB47,000, RMB274,000 and RMB669,000, respectively. All end consumers, including those who subscribe on our website through redirections from social media platforms, can cancel their subscription to our AIGC solutions and purchase of the add-on premium functions at any time. In line with the industry practice, where subscription to our AIGC solutions is canceled, no subscription fee would be charged for the next subscription period following cancellation and the subscription fees for the existing period shall still be borne by our end consumers.

Set forth below are the major terms of our arrangements with social media platforms for our Smart Devices and Other Accessories:

Duration of service	No duration is specified since we do not enter into separate agreements with social media platforms.
Service fee	Service fee is charged based on general pricing policies set by social media platforms and we do not enter into separate agreements with them. During the Track Record Period, the service fee charged by social media platforms in each year ranged from 0.6% to 5% of the total transaction value. The service fee charged by the platforms amounted to RMB161,600, RMB151,300 and RMB24,100 for the years ended December 31, 2021, 2022 and 2023, respectively.

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Roles and responsibilities of our Group	We shall sell and deliver our devices in accordance with the terms and conditions of such agreement as designated by the platforms.
Roles and responsibilities of social media platforms	The platforms shall provide the necessary sites, tools and services for the purpose of selling our devices to end consumers.
Goods return policies	We typically accept return requests within seven days from receipt of goods by end consumers.
Payment arrangements	The settlement cycle of service fees ranges from four to 15 days following order confirmation or receipt of payment from end consumers. The platforms usually deploy online payment systems certified by them and collect payments from end consumers. Sales proceeds are usually settled at the end of each settlement cycle after deducting service fee and the remaining balance is transferred to our Group after both parties reconcile and confirm the transaction records.

Apart from our proprietary online stores, we also sell our products through a global online distribution network comprising third-party e-commerce partners. We cooperate with the third-party e-commerce platforms which our solutions are sold primarily through Amazon, Walmart and AliExpress. For details of our distribution model, please refer to the paragraph headed "— Distribution model" in this section.

In addition, we also engage our in-house sales team for sale of our AI enterprise solutions and Smart Devices and Other Accessories to our enterprises, and third-party distributors for sale of our Smart Devices and Other Accessories. During the Track Record Period, we had primarily sold our AI enterprise solutions through in-house direct sales forces. We generally conduct direct sales through phone calls and onsite visits, and leverage the network effect and word-of-mouth referrals by stakeholders to strategically expand our market presence and scale up our business in a cost-effective manner. Apart from direct sales, we also deliver our solutions by engaging offline distributors which comprises (i) retail chains and local authorized stores in China, and (ii) international distributors, including online shops and offline retail stores. For details of our distribution model, please refer to the paragraph headed "— Distribution model" in this section.

Distribution model

We depend on effective sales networks to deliver our smart devices to consumers by engaging with online and offline distributors across the globe. As of December 31, 2023, we engaged 39 distributors, respectively, which allowed us to increase our market share in Smart Devices and Other Accessories and launch new products to the market in a relatively short timeframe. Our

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distributors are our direct customers and are responsible for on-selling and delivering our products to their customers, including end users. We enter into buyer and seller relationships with all of our distributors. We consider a number of factors in selecting distributors, including their brand and reputation in the relevant industry, their overall business management and financial performance, and their warehousing and logistics capabilities. We believe our distributorship model is in line with industry norm.

For the sale of our Smart Devices and Other Accessories, the revenue is recognized when the distributors take possession of and accept the products. Under the standardized framework distribution agreements entered into among our suppliers and us, the distributors have the right to return the products within two days from the date of acceptance. The distributors acknowledge receipts of products, they bear the risks of any damage or loss of the products. Based on the historical information, our Directors are of the view that there will be no significant reversal of cumulative revenue and therefore recognizes those sales as revenue when the distributors take possession of and accept the products.

The following table sets forth the breakdown of our revenue from Smart Devices and Other Accessories by distribution channels for the years indicated:

| | For the year ended December 31, | | | | | |
| | 2021 | | 2022 | | 2023 | |
	RMB'000	%	RMB'000	%	RMB'000	%
Smart Devices and Other Accessories						
— Group's proprietary online stores[Note]	158,775	46.9	87,173	44.2	78,884	48.2
— Third-party online distribution platforms	130,127	38.5	81,055	41.1	62,466	38.1
— Offline distributors	49,493	14.6	29,078	14.7	22,463	13.7
Total	**338,395**	**100.0**	**197,306**	**100.0**	**163,813**	**100.0**

Note: Our proprietary online stores include both our official website and our stores on various e-commerce platforms.

The percentage of revenue generated from our Group's proprietary online stores was 46.9%, 44.2% and 48.2% for the years ended December 31, 2021, 2022 and 2023, respectively. In 2022, the overall revenue from our Smart Devices and Other Accessories decreased compared to 2021, and the revenue generated from our Group's proprietary online stores decreased accordingly since there were no new products launched in 2022. The decline in the percentage of revenue generated from our Group's proprietary online stores was due to our sales strategy in 2022, under which our

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Group aimed at maintaining the original price on our proprietary online stores as opposed to offering discounts on third-party online distribution platforms in order to differentiate the sales channels and boost sales via third-party online distribution platforms. The percentage of revenue generated from third-party online distribution platforms increased slightly from 38.5% for the year ended 31, 2021 to 41.1% for the year ended December 31, 2022, while the percentage of revenue generated from offline distributors increased slightly from 14.6% for the year ended 31, 2021 to 14.7% for the year ended December 31, 2022, in both cases, primarily due to the impact of COVID-19 which remained during both years and contributed to online purchases. The percentage of revenue generated from third-party online distribution platforms decreased from 41.1% for the year ended December 31, 2022 to 38.1% for the year ended December 31, 2023, primarily due to our strategy to restructure product categories, as well as the delay in launching of new flagship products.

The following tables set forth the changes in the number of our distributors by geographical locations during the Track Record Period:

Distributors located in China

	For the year ended December 31,		
	2021	2022	2023
At the beginning of the year	60	29	16
Addition of new distributors	21	9	7
Number of distributors terminated during the year	52	22	10
Net decrease in distribution.	(31)	(13)	(3)
As of the end of the year	29	16	13

Distributors located outside China

	For the year ended December 31,		
	2021	2022	2023
At the beginning of the year	80	72	42
Addition of new distributors	50	21	15
Number of distributors terminated during the year	58	51	31
Net decrease in distribution.	(8)	(30)	(16)
As of the end of the year	72	42	26

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As of December 31, 2023, we had 13 distributors in China and 26 distributors outside China. During the Track Record Period, all of our distributors had been Independent Third Parties. To the best knowledge of our Directors, there was no employment, financing, family or other relationship between our distributors and us during the Track Record Period. We terminated distributor relationships with 110, 73 and 41 distributors in 2021, 2022 and 2023, respectively, primarily due to our strategies to restructure distribution network. After the termination of such relationships, we settle accounts with the terminated distributors and generally do not allow return of unsold products from these terminated distributors. We engaged 71, 30 and 22 new distributors in 2021, 2022 and 2023, respectively.

Major terms of agreements with distributors

During the Track Record Period, we had typically entered into standardized framework distribution agreements with our distributors for our Smart Devices and Other Accessories. Below sets forth the salient terms of our standardized framework distribution agreements in relation to distributors:

Term of service and contract renewal	Generally has a fixed term of one year and subject to automatic renewal for one year.
Service fee	The fees charged depend on the actual services provided, according to the terms under relevant purchase order.
Payment arrangements	Payments should generally be made in full by distributors for our Smart Devices and Other Accessories prior to the shipment arranged by us.
	Payments are typically settled by bank transfer with the agreed credit terms.
Delivery of products	For our Smart Devices and Other Accessories, we arrange delivery services with Independent Third Party logistics companies.
Transfer of risks	For our Smart Devices and Other Accessories, the risks transfer to the distributors at the time and place of delivery of products to forwarder or carrier.
Return of products	For our standard Smart Devices and Other Accessories, we only accept product return application within 2 days after receipt of products on the basis that we fail to comply with the purchase order terms.

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Minimum purchase requirements	We generally do not set a minimum purchase requirements for our distributors.
Pricing policy	We provide recommended retail price to our distributors.
Termination	Each party may unilaterally terminate the agreement if the other party breaches the agreement.
	We may terminate the agreement if the conditions agreed by distributors are not met.

Major terms of agreements with third-party e-commerce platforms

Term of service	The term of an agreement typically ranges from one to two years.
Service fee	Commission fee ranges from 5% to 15% of selling price depending on items and categories.
Roles and responsibilities of our Group	We shall sell and deliver our devices in accordance with the terms and conditions of such agreement as designated by the platforms.
Roles and responsibilities of online platforms	The platforms shall provide the necessary sites, tools and services for the purpose of selling our devices to end consumers.
Goods return and recall policies	Requests for full refund or replacement are accepted within seven to 30 days of receipt. If our devices are damaged, defective, not fit for any claimed purpose or breach any warranty or representation, consumers can normally return the product within three months.
Payment arrangements	Payment of service fee shall be made from 30 to 90 days following completion of transaction with end consumers.

Management of our sales and distribution network

Our sales and distribution network is managed by our sales team. Please refer to the paragraph headed "— Marketing" in this section for details of our sales team. To minimize the risk of cannibalization, we have adopted the following policies regarding our sales and distribution network: (i) we provide recommended retail and sales prices to e-commerce platforms and distributors, with an aim to ensure consistency across different channels, and (ii) when selecting our distributors, we take into account of their respective geographic coverage in order to avoid potential competition among our distributors within a region. Particularly, for our sales to

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e-commerce platforms and our sales through our own proprietary stores, we have implemented a number of internal control policies to prevent cannibalization as certain e-commerce platforms on which a number of our proprietary online stores operate are also our customers. Such policies include (i) applying same recommended price for the same product; (ii) providing different multi-item combo packs to the e-commerce platforms and our proprietary online stores; (iii) setting a cooling-off period between promotional events on the e-commerce platforms and those held by our proprietary online stores; and (iv) designing different themes for promotional events on the e-commerce platforms and our proprietary online stores.

We have also adopted several measures to prevent channel stuffing, which primarily include (i) providing advice to our distributors regarding product and service offerings that are suitable to their clients, with an aim to minimize unsaleable products, and (ii) actively communicating with our distributors to gain a general understanding of their sales performance and provide marketing advice accordingly, and therefore help them avoid. We have set up a policy to require distributors to report to us their inventory level every one to three months, depending on each distributor's inventory management capability and the size of its inventory. During the COVID-19 pandemic, we communicated with our distributors regarding inventory level, development of distribution channels, sales performance and conducted the inventory-taking mainly by way of online meeting.

We constantly seek to optimize our sales strategy to adapt to changing market dynamics based on sales data collected by our sales and marketing team. Based on the sales strategy, we establish guidance for our sales and distribution network accordingly. We analyze data on the sales performance of our online channels and monitor the performance. Our sales and marketing team analyzes the information regularly to keep ourselves updated and adjusts our online sales and marketing strategies as necessary.

In addition, we monitor our distributors' compliance with the terms and conditions of distribution agreements. If we discover non-compliant issues, we will notify the relevant distributors in writing and request the distributors to cease the non-compliant activities within a specified period of time. We have the option to terminate our relationship with the distributors if the relevant distributors do not rectify the non-compliant activities as notified. Our distributors are also liable for breaches of their distribution agreements, and they are required to indemnify us for relevant breaches. We can terminate the appointment of our distributors if they breach provisions stipulated in the distribution agreements and choose not to renew our distribution agreements if their sales performance is not satisfactory.

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Pricing

We have developed different pricing policies for our AIGC solutions, AI enterprise solutions and Smart Devices and Other Accessories, as follow:

(i) ***AI Software Solutions — AIGC solutions:*** We generally charge fixed membership subscription fees for basic packages and additional fees for add-on premium functions, such as premium voiceover actors and multi-seat collaborative creations. Multi-seat collaborative creations refer to a feature that enables multiple individuals to work together simultaneously on shared projects. In addition, for the avatar services, we charge for fee for voice and image cloning, 3D avatar customization, fixed membership subscription fees for avatar video creation and 2.5D and 3D avatar livestreaming services and volume usage fee for API integration services.

(ii) ***AI Software Solutions — AI enterprise solutions:*** Our service fees are generally set out in the agreements between us and our customers. We take into account of various factors, including type of services provided, type of customers and the industries they are involved in, level of engagement of our self-developed IP rights and level of customization. In addition, for our customers from automotive industry, we will also charge in respect of customers' sales volume on the model utilizing our relevant AI enterprise solutions and for the future upgrade on solutions.

(iii) ***Smart Devices and Other Accessories:*** We take into account of various factors, including cost of raw materials, selling and distribution expenses, supply and demand, the market positioning of the product, the prices of competing products and service fees and commission fees charged by the e-commerce platforms.

IMPACT OF THE U.S.-CHINA TRADE TENSION

During the Track Record Period and up to the Latest Practicable Date, the United States had been one of our markets. The ongoing trade dispute between the PRC and the United States and the increase in tariffs that the United States imposed on PRC imports have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Our revenue generated from sale of Smart Devices and Other Accessories and customized smart devices and hardware developed under our AI enterprise solutions to customers in the United States accounted for 15.8%, 7.0% and 5.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. Most of our smart devices and hardware sold to the United States are subject to additional tariffs, with the majority of them subject to a tax rate of 7.5% while the remaining subject to a tax rate of 4.6%. The tariffs have remained as of the date of this document which make Chinese goods more expensive.

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Nonetheless, as our smart devices and hardware do not involve sensitive technologies or functions, we have no reason to believe that the U.S. government would impose import restrictions on our products. Furthermore, sales of our smart devices and hardware to the United States as a percentage of total revenue from selling our smart devices and hardware had been decreasing throughout the Track Record Period and the trend is expected to continue after the **[REDACTED]**. Therefore, the Directors are of the view that the U.S.-China trade tension is unlikely to impede our ability to carry out our business with customers or collaboration with partners in North America, or to have a material adverse impact on our operations and financial performance in the near future.

As contingency measures to mitigate the potential impact of intensifying U.S.-China trade tensions, we will continue to expand sales channels in China, Europe and other markets. We have established companies in Singapore and the Netherlands in order to better serve overseas customers and markets. Furthermore, we sought to mitigate the impact of the costs associated with U.S. tariffs primarily by (i) promoting new consumer smart devices with higher margins that partially cover the tariff costs, (ii) sharing tariff costs with customers or suppliers, and (iii) raising selling prices of our consumer smart devices subject to tariffs where appropriate, taking into consideration factors such as foreign exchange rates and raw material prices.

Based on the independent due diligence work conducted by the **[REDACTED]**, including but not limited to, (i) reviewing the Accountants' Report and revenue contribution by geographical locations of our Group during the Track Record Period; (ii) reviewing the legal memo issued by our Company's legal advisors in relation to restrictions on export control and discussed with the legal advisors; (iii) discussing with our Company on the potential impact on our Group from the recent developments in the relationship between the PRC and other countries, and the contingency measures adopted by our Group to mitigate the risks associated with international geographical and trade tensions; and (iv) conducting background searches to our Group to understand any impact on international geographical and trade tensions, nothing has come to the attention of the **[REDACTED]** that would cause the **[REDACTED]** to disagree with the Directors' views.

QUALITY CONTROL

We are committed to providing customers with the highest level of quality in our AI-based solutions. We have designed and implemented a quality management system that provides the procedures and measures for continuous improvement of products and processes.

Before engaging contract manufacturers, we carefully review their licenses and other credentials and examine their technological expertise. We also conduct site visits to our contract manufacturers to examine their product quality and manufacturing capacity. Before launching new solutions, we conduct thorough examinations of samples and each of their components (including

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their technical specifications) at the testing stage to make sure they satisfy the relevant technical requirements. With respect to our existing solutions, our quality control team establishes, communicates and monitors quality standards by solution category.

We typically purchase raw materials, key hardware components and customized parts from suppliers in the market directly such that we can effectively control their quality. These raw materials and key hardware components are delivered to our contract manufacturer's production sites for assembly, we typically conduct our testing on site before project handover. With respect to other components and raw materials, we designate eligible suppliers for our contract manufacturers. Our diversified procurement approaches can reduce the transportation costs of components and raw materials while securing their quality.

We have access to each production facility of our contract manufacturers. Our quality control team continuously monitors the quality of components, raw materials and finished products as well as the production processes of our contract manufacturers' facilities.

PROCUREMENT

Procurement

We procure raw materials and key components from top-tier suppliers for the production of our in-house designed product based upon our production plan and outsource the assembly of our in-house designed products to our contract manufacturers. Apart from in-house designed products, we also collaborate with our partners to jointly design and develop Smart Devices and Other Accessories and our partners supply finished products to us for sale and distribution to our customers.

Suppliers for hardware components and raw materials

Although we engage contract manufacturers to assemble and manufacture our products, we typically purchase raw materials, key hardware components and customized parts from suppliers in the market directly, thereby ensuring the quality of our products. Such hardware components and raw materials are generally of high value and/or require delicate customization, such as integrated circuits, displays, touch panel modules, plastic parts, metal parts, batteries and watchbands. Our key hardware components and raw materials are primarily sourced within the PRC. As of the Latest Practicable Date, our suppliers for key hardware components and raw materials had worked with us for not less than five years.

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We typically enter into one-off purchase agreements or framework purchase agreements with their term ranging from one year to five years with suppliers for our key hardware components and raw materials. Under framework purchase agreements, individual purchase orders are separately placed for each purchase. Our purchases are generally made at fixed unit prices prescribed in quotation provided subsequent to entering into the agreements, subject to an upward and downward adjustment upon mutual consent. Our key hardware component and other raw material suppliers generally require us to make full prepayment of the contract price, or grant us credit terms ranging of 30 days. We generally pay our suppliers via wire transfer. Our suppliers are typically responsible for arranging delivery to us at their own costs. We are typically granted a warranty period ranging for 12 months by our suppliers, and we are typically entitled to return or exchange defective supplies.

Contract manufacturers

In line with industry practice, we engage Independent Third Party contract manufacturers to assemble and manufacture our products. This approach allows us to focus our resources on technologies innovation, sales and marketing, and customer service. We select our contract manufacturers based on a variety of criteria, including technological expertise, product quality, manufacturing capacity, market reputation, as well as price and other commercial terms. As of the Latest Practicable Date, we had maintained business relationships with majority of our contract manufacturers for over five years.

We typically enter into cooperation agreements and framework purchase agreements with our contract manufacturers, and we place an individual order for each purchase. Pursuant to such agreements, our contract manufacturers typically assemble and manufacture products in accordance with our design specifications and standards.

With respect to certain key hardware components and raw materials that we directly purchased from suppliers in the market, our contract manufacturers also provide warehouse and inventory management services. We generally pay our contract manufacturers non-recurring engineering fees and purchase price for products, and we are required to make payments in accordance with the payment schedule agreed by both parties. Purchase price of products would normally be fixed in our subsequent purchase orders. Our contract manufacturers normally grant us a warranty period of 12 months. We are normally entitled to return or exchange defective products. In the event of any liability caused by product defects that are attributable to our contract manufacturers, such contract manufacturers are required to compensate us for any damages or losses arising therefrom. All intellectual property rights arising from the assembly, manufacture and supply of products, including the intellectual property rights of customized tooling and finished products, will be owned by us.

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Providers of cloud services and servers

We utilize cloud servers provided by cloud service providers. We select our cloud service providers mainly based on their capabilities to provide unique quality cloud services. The cloud service providers are typically responsible for provision of cloud-based host, disk, database as well as maintenance service thereof. In return, we typically pay service fees calculated based on the time or amount of service utilized by us. Besides cloud services provided by cloud service providers, we also purchase servers (i) to build our own IT infrastructure; or (ii) to use such servers to support our solutions. We select our server vendors based on a variety of criteria, including research and development capabilities, service system and quality, history of cooperation and price. The servers we choose to use are selected by our computer scientists after rigorous testing to evaluate capacity and quality. Our purchases of servers are generally made at fixed prices prescribed in the relevant purchase agreements.

Suppliers for data sources

We acquire voice data from third-party professional data sources for training of our algorithms. Pursuant to the agreements between such data source suppliers and us, we were typically granted licenses to access and utilize their voice database, and such data source suppliers are also responsible for maintaining and upgrading their voice database from time to time. In return, we are typically required to pay such data source suppliers license fees calculated based on our usage time of such voice database. The intellectual property rights of voice database remain with our data source suppliers, while we own intellectual property rights of any processed data that we derived from, or any solutions that we developed on, raw data in such voice database.

Providers of warehouse and logistics services

We believe that reliable and timely product delivery is a critical component of providing a compelling shopping experience. We engage third-party warehouse and logistics service providers for storage of our products and shipment of the same to our customers. Our warehouse and logistics service providers are typically responsible for inventory management, sorting, packaging and delivery of our products, as well as dealing with product returns and exchanges. We normally pay service fees calculated based on the type and amount of service that we utilized, subject to a minimum amount of monthly service fees committed by us. In the event of changes in market condition, our warehouse and logistics service providers are typically entitled to adjust their fee quotes accordingly. Although adjusted fee quotes will only be implemented upon our confirmation, our warehouse and logistics service providers are entitled to terminate their services in the event of our rejection. We have developed relationships with such third parties to expand the geographic

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coverage of our operations. We are generally able to ship our products to customers located in China within four business days and customers located outside of China within 15 business days after order placement.

We typically strategically aim to source each type of supplies or services from at least two suppliers or providers, in order to ensure supply stability and optimal procurement cost control. For those supplies or services for which we believe we can easily identify substitute suppliers or providers, we may source them from single supplier or provider. Save as disclosed in the paragraph headed "— Procurement" in this section and the sections headed "Financial Information" and "Risk Factors" in this document, we had not experienced any material (i) shortage of, or delay in, the delivery of supplies or in the provision of services; (ii) return or exchange of supplies or services that did not meet our standards; or (iii) loss or damage caused by quality problems with the supplies or services, during the Track Record Period and up to the Latest Practicable Date. In addition, we had not experienced any significant fluctuation in the prices of supplies or services procured by us during the Track Record Period and up to the Latest Practicable Date.

As of the Latest Practicable Date, notwithstanding as discussed herein, we had not experienced experience material business disruptions or operating difficulties due to the COVID-19 outbreak. We believe the COVID-19 outbreak has not materially affected our business or our financial performance as explained above. For details of the risks relating to pandemics and epidemics, please refer to the paragraph headed "Risk Factors — Risks Relating to Our Business and Industry — Pandemics and epidemics, natural disasters, terrorist activities, political unrest, and other force majeure events may disrupt our business operations, which could materially and adversely affect our business, results of operations, financial conditions and business prospects" in this document.

LOGISTICS AND INVENTORY MANAGEMENT

Logistics and warehouse

We engage third-party warehouse and logistics service providers for storage and delivery services. Our contract manufacturers would arrange to deliver finished products that have passed quality inspections to our designated warehouses. The finished products are packaged by our contract manufacturers in accordance with our specifications and standards, we would arrange delivery to locations specified by our customers subsequently.

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Inventory management

Our inventory primarily includes finished products, hardware components and other raw materials. We have set up an inventory control policy to monitor our inventory levels and minimize obsolete inventory. Through close coordination with our customers and contract manufacturers, as well as purchases of raw materials from suppliers on an as-needed basis, we are able to carry fewer inventories and lower our inventory risk. However, to avoid any shortage of supplies, we may strategically keep a higher level of stock for certain key hardware components and raw materials to preempt possible industry-wide shortages. In addition, we require third-party warehouse service providers to check and report their inventory to us on a periodical basis in accordance with our agreements with them, thereby ensuring a safe inventory level of our finished products in such third-party warehouses. With a prior written application, we may also enter into third-party warehouses for onsite inspection.

We make provision for inventories based on historical experience and estimation of future market condition and sales, and will adjust the provision where actual net realizable value is higher or lower than previously estimated. For the years ended December 31, 2021, 2022 and 2023, we made provision for impairment loss of our inventories in the amount of RMB6.8 million, RMB6.1 million and RMB17.6 million, respectively.

SEASONALITY

Our business is subject to seasonality, resulting from the seasonal fluctuations in customer purchases and the frequency of marketing and promotional activities. During the Track Record Period, we had generally recorded higher revenue for our solutions for the second half of the year. Our customers usually order more smart devices from us during "Amazon Prime Day" and Black Friday. In addition, we usually experience higher sales volume during marketing and promotional activities held by us or our third-party e-commerce partners, most of which are held in the fourth quarter of the year, for example, "11.11 Shopping festival", "12.12 Shopping Festival", "Amazon Prime Day" and "Black Friday". Although our business is subject to seasonality, the overall impact of seasonality on our business has been relatively mild due to our diversified solution mix. The seasonal trends that we have experienced in the past may not be indicative of our future financial positions and results of operations. For further information, please refer to the paragraph headed "Risk Factors — Our operations are subject to seasonal fluctuations" in this document.

COMPETITION

The AI market we operate in is rapid growing with abundant number of market participants being engaged in this competitive market with various solution offerings.

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For the AI market in China, we mainly compete with multinational technology company specializing in internet and AI related services and software solution provider. We believe that we had excelled these competitors as we, according to the CIC Report, ranked the first in terms of revenue derived from AIGC products and services in 2022 and launched the first commercialized AIGC application in China. As of the Latest Practicable Date, our Company ranked the second in terms of the number of commercialized AIGC applications for consumer and content creator usage, while providing the most diverse commercialized modalities of AIGC for users.

For the Smart Devices and Other Accessories market, it consists of a variety of market players with different business focuses and Smart Devices and Other Accessories offerings. Meanwhile, part of the global AI-empowered smart devices market is dominated by several large-sized multinational enterprises and the remaining market is highly fragmented by numerous players. It is expected that the trend for the future development of the consumer Smart Devices and Other Accessories market will be in relation to (i) enhanced software-hardware synergy; (ii) improved interaction based on AGI models; and (iii) products with high-frequency usage. To compete with our competitors, we will strive to take the lead in developing solutions align with the market trend forecast.

For the AI software solution market, the AI software solution market is projected to grow rapidly in the following years. According to the CIC Report, 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 and expected to reach RMB209.0 billion in 2027. We trust there exists a robust potential for our profit making in this market.

Among other things, we are one of the market players in developing and commercializing AIGC model in Asia. According to the CIC Report, we are one of the market players in Asia with the capabilities of building large language model with multi-modal generative capabilities.

BUSINESS SUSTAINABILITY

We believe our future path in reaching profitability and maintaining positive operating cash flow is supported and demonstrated by the expected rapid growth of the AI and AIGC industries and our improving historical performance.

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The industry opportunity

AI has profoundly impacted the global economy and social advancement and has become a global strategic priority. China's AI market 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 USD8.0 billion in 2018 to USD27.7 billion in 2022, and is expected to reach USD91.1 billion in 2027.

Furthermore, with the advancement and innovation of AI technology, AIGC has emerged to redefine the very nature of content creation. Although the AIGC industry is currently at an emerging stage, it is expected to undergo exponential growth and has robust market potential. The market size of China's AIGC market is estimated to reach RMB32.6 billion by 2027, representing a CAGR of 136.3% between 2022 and 2027.

As one of the market players in Asia capable of building large language model with multi-modal generative capability, we ranked top five among the major AI companies in terms of the revenue derived from AIGC solutions in 2022 in Asia according to CIC. We believe that we are in a good position to capture the opportunities emerged from this revolutionary technology and industry development.

Improving historical performance

During the Track Record Period, our historical operational and financial performance had been generally improved. Our revenue increased from RMB397.9 million in 2021 to RMB500.2 million in 2022, as we continuously expand our business scale and our solutions offerings. We have also seen improvement in gross profit and gross profit margin in 2021 and 2022, with gross profit increasing from RMB149.2 million in 2021 to RMB336.2 million in 2022, and our gross profit margin increasing from 37.5% to 67.2% for the corresponding years. Our revenue increased from RMB500.2 million in 2022 to RMB507.1 million in 2023, primarily due to the increase in our revenue from AIGC solutions, which was partially offset by the decrease in our revenue from Smart Devices and Other Accessories and AI enterprise solutions. Our gross profit decreased from RMB336.2 million in 2022 to RMB326.1 million in 2023 corresponding to our gross profit margin of 67.2% and 64.3% for the same years, respectively. We recorded an adjusted net loss (non-IFRS measure) of RMB73.4 million in 2021 and an adjusted net profit (non-IFRS measure) of RMB108.9 million in 2022 corresponding to an adjusted net loss margin (non-IFRS measure) of 18.5% in 2021 and an adjusted net profit margin (non-IFRS measure) of 21.8% in 2022, respectively, and an adjusted net profit (non-IFRS measure) of RMB17.5 million in 2023, corresponding to an adjusted net profit margin (non-IFRS measure) of 3.5% for the same years. For details, please refer to the paragraph headed "Financial Information — Year-to-year comparison of results of operations" in this document.

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AI Software Solutions — AIGC solutions

Our AIGC solutions allow content creators to improve the efficiency and effectiveness of the content generation process with shortened content output time and reduced costs. In commercializing our prominent technologies, we have captured the prominent market opportunity. We experienced an increase in customers' willingness to pay for our AIGC solutions which was evidenced by the strong increasing trend in our revenue from AIGC solutions from RMB6.8 million in 2021 to RMB39.9 million in 2022 and further to RMB117.6 million in 2023. In providing AIGC solutions, we offer our content creators with content creation platforms including "Moyin Workshop", "DupDub", "Mozhuan Writing", "Qi Miao Wen" and "Weta365". Since the launch of our AIGC solutions in 2020, we had cumulative paying users of approximately 800,000 as of the Latest Practicable Date, demonstrating our ability in retaining existing users and attracting new users. As we are still at a relatively early stage of our monetization efforts in AIGC solutions, we will focus on continuously optimizing our products and technology offerings and expanding our user base. We believe our efforts in growing our user base and innovating our solutions would lay a solid foundation for our long-term success.

AI Software Solutions — AI enterprise solutions

In providing AI enterprise solutions, we offer enterprises customized AI Software Solutions including AI voice interaction solutions, intelligent customer service solutions and virtual character broadcast solutions under various enterprise scenarios. Our revenue generated from AI enterprise solutions amounted to RMB52.7 million, RMB263.0 million and RMB225.6 million for the years ended December 31, 2021, 2022 and 2023, representing 13.3%, 52.6% and 44.5% of our revenue for the corresponding years, respectively, primarily attributable to the increase in revenue from IP rights arrangements, the increase in the number of enterprises we served and engagements in new projects with existing enterprises. Despite a decrease in revenue from IP rights arrangements with Automotive Sub A in between 2022 and 2023, we observed an increase in the number of enterprise customers.

Our historical performance from our AI enterprise solutions was contributed by our ability to utilize our technology and deliver various solutions such as cloud-based solutions, embedded solutions, online-offline integrated solutions and IP rights arrangements. As of the Latest Practicable Date, we had served over 100 enterprises from automotive, finance, TMT and others such as healthcare and retail industries as we continue to expand our client base and services scope.

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Smart Devices and Other Accessories

In providing Smart Devices and Other Accessories, we offer various smart devices, such as AI smart watch — TicWatch series and AI smart treadmill — Mobvoi Home Treadmill Incline, to the customer. Our revenue for Smart Devices and Other Accessories amounted to RMB338.4 million, RMB197.3 million and RMB163.8 million for the years ended December 31, 2021, 2022 and 2023. Our gross profit margin decreased from 33.1% in 2021 to 26.4% in 2022 and decreased to 21.5% in 2023, which was largely affected by the progress of development and launching of our products. Our revenue in 2022 and 2023 was impacted by the COVID-19 pandemic which delayed the launch of our new flagship TicWatch product, TicWatch Pro 5, and increased the time interval between two flagship TicWatch products. Upon the lifting of the COVID-19 prevention and control policies by the PRC government in December 2022, we expect such time interval will be reduced and our sales activities will be more active. We experienced an increase in revenue from smart devices upon the launch of our flagship products which was evidenced by a significant increase in our revenue from Smart Devices and Other Accessories between 2020 and 2021, after the launch of our TicWatch Pro 3 in September 2020.

Our path to sustainable profit

We will maintain and further enhance our profitability by (i) expanding our business scale by continuous development in all segments; (ii) enhancing our technology capacity and improving our offerings' overall competitive strength; (iii) geographical expansion; and (iv) maintaining our cost structure leveraging our continuous research and development efforts and enhancing our operational efficiency.

Expanding our business scale by continuous development in all segments

AI Software Solutions — AIGC solutions

(i)   Increasing the number of paying users and average revenue per paying user

We intend to further expand our user base in attracting new users, especially paying users, through strengthening selling and marketing efforts, improving branding and expanding the functions and features of our AIGC solutions.

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The following table sets forth the numbers of our paying users, registered users and monthly active users for the years indicated:

	For the year ended December 31,		
	2021	**2022**	**2023**
Number of paying users $^{(Note\ 1)}$ (*'000*)	63	237	410
Number of registered users (*'000*)	1,454	2,982	4,038
Number of monthly active users $^{(Note\ 2)}$ (*'000*)	N/A	1,045	1,970

Notes:

1. Paying users refer to users whose payments for subscription, renewal and/or other purchases were made on any of our AIGC platforms during the year indicated. Users whose subscriptions were carried forward from the previous year and expired, without renewing, during the year indicated are excluded.

2 Monthly active users refer to users who access our AIGC platforms monthly. The number of monthly active users is not applicable for the year ended December 31, 2021, as we started to analyze our monthly active users since August 2022 when our user base reached a significant level that justified the cost of analysis.

Since the launch of our AIGC solutions in 2020, our customer base continued to grow as we continuously enhanced our brand awareness to improve positive brand recognition of our solutions. We had approximately 1,000, 63,000, 237,000 and 410,000 paying users for the years ended 2020, 2021, 2022 and 2023, representing a CAGR of 642.9%. The number of registered users increased from approximately 63,000 for the year ended December 31, 2020 to approximately 1,454,000 for the years ended December 31, 2021, and further to approximately 2,982,000 for the year ended December 31, 2022, and further to approximately 4,038,000 for the year ended December 31, 2023. Our growth in revenue from paying users is a key driver in our overall revenue growth and our growing customer base reflects the scalability and strength of our AIGC solutions, and we believe this is crucial to driving revenue growths, and ultimately our ability to achieve profitability.

We strive to (i) retain the core group of loyal and paying users in our solutions and products; (ii) convert more non-paying users into paying users; and (iii) increase the average revenue per paying user in our new pipelines with our gradually advanced technologies and solutions. To further enhance our monetization potential, we will continue to pursue a healthy and high-quality user growth and retain and attract more users through various measures. These measures include:

• Launching new features and functionalities with regard to our AIGC solution matrix

We will continue to develop and enrich features and functions for AI-generated content and video built-in in our AIGC platforms designated for content creators, as well as to expand the variety of application scenarios. With our robust research and development capabilities, we will

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continue to enhance and optimize our AIGC solutions with different functions and features in terms of its comprehension, generation and transformation abilities to cover different scenarios and pain points. In order to enrich users' experience and optimize our AIGC platforms, we plan to (i) revolutionize the process of video script planning and creation; and (ii) develop powered tools for artistic painting and animation of video content in "Moyin Workshop". Further, in order to cater to the needs for marketing and training videos of small and medium-sized business, we plan to develop and incorporate (i) AI writing for scripts, (ii) AI painting for text-to-image and image-to-image and (iii) AI video editing for track composing to application scenarios with regard to "Weta365".

We also plan to launch some new and advanced features in "Moyin Workshop", "Weta365", "Qi Miao Wen" and "DupDub". These include: (i) instant voice cloning (i.e. cloning a voice within 10 seconds speech samples and which can be applied to various applications including podcasts); (ii) video localization (i.e. the said solution matrix can analyze lip movements and enable automatic translation of any audio and match them to 40 languages by merely inputting a video); (iii) video shorting (i.e. extracting important segments from a long video based on the audio and visual content automatically, creating multiple shorter videos and it is suitable for tasks like testing material for advertising campaigns); and (iv) text-to-video (i.e. generating video-based on text input by utilizing Sequence Monkey techniques to transform textual content into visually appealing video presentations). Furthermore, as of the Latest Practicable Date, "Moyin Workshop" had launched AI voiceover services with a total of 895 voice actors which offer a diverse range of 1,540 voice styles and tones. We have also collaborated with 40 renounced industry experts and professional, including audiobook narrators, voiceover artists on television and films as well as versatile voice actors. These innovations and developments shall take on significant roles in the creation process of content creators and shall assist them in generating scripts effortlessly at a later stage. We believe the solutions and platforms we offer are highly modularized, which allow us to address users' customized demands effectively and efficiently, and in turn, enable us to achieve operating efficiency whilst attracting more paying users and retaining existing users.

As our user base continues to expand, we are provided with more accurate user portraits, and as such, we are able to tailor and iterate our offerings to better solve content creators' pain point, while we are also able to provide flexible fee-charging schemes to meet various demand. For example, we offer a voice package plan for voiceover users and cross-solutions function to professional video editing enterprises.

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- Upgrading our underlying technologies in relation to our multi-modal large language model, "Sequence Monkey"

We plan to continue upgrading our multi-modal large language model, "Sequence Monkey", to enhance its AI development capabilities by (i) collecting and curating additional training data to expand and improve its language understanding capabilities; (ii) fine-tuning and enhancing it on relevant datasets so as to improve its performance for content creators; (iii) incorporating domain-specific knowledge which include industry-specific terminology and context into it; and (iv) gathering high-quality user feedback actively to understand their needs, upgrading the model and addressing any shortcomings. Moreover, we intend to optimize and advance our "Sequence Monkey" by (a) training and optimizing it so as to make it easier to launch new solutions targeted at multi-modal scenarios in the future; and (b) inserting more training data and optimizing by massive volume of data with higher quality. Further, we intend to optimize our "Sequence Monkey" to provide more competitive service capabilities in the areas of image generation, audio generation, text generation, action generation, 3D motion generation and video generation. We believe our robust AI infrastructure does support the constant advancement of "Sequence Monkey", helping us stay at the forefront of technological advancement and deliver innovative AI solutions with strong performance.

- Implementing monetization marketing and promotion strategies

We will start to expand and diversify our revenue streams by a series of marketing efforts. We also plan to invite KOLs to help advertise our solutions domestically, and implement promotion and marketing strategies on social medias and e-commerce platforms in China, such as Taobao, Baidu, Xiaohongshu and Douyin to publicize and promote our solutions. Leveraging our open-platform capabilities, we plan to actively promote our advertising services, through leveraging our large and quality user base, expanding advertising our customer base and introducing more effective and diverse advertising services.

Leveraging our deep understanding of users' interests and preferences, we are well positioned to create more consumption scenarios around users' evolving demands to encourage users to interact on our solution matrix and enhance their willingness to purchase our services, which further increases our sales with regard to AIGC solutions. In particular, we launched a competition for content creators to participate in September 2023 in which we invited our video creators' participants to make use of our AI voiceover solutions to create videos in "Moyin Workshop" and publish on Douyin. The competition had attracted approximately 210 million view counts and around 2.7 million "likes". The top 40 participants with the most "likes" on Douyin won and were awarded with cash prices. Since June 2021 and up to the Latest Practicable Date, we had organized a total of seven competitions with an average prize pool of RMB10,000 in relation to "Moyin Workshop", and each competition held had attracted around 600 talented individuals and there

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were signs of increasing participation rate in each event. Such competitions will not only provide a platform for content creators to showcase their skills but will also help building up our brand equity, awareness and exposure and enhance users' loyalty. Through these competitions, we strive to push the boundaries of creativity and foster a thriving community of content creators.

Further, in order to (i) engage more end users including potential content creators and KOLs and (ii) attract and convince potential channel partners, we host regular webinars so as to demonstrate them the uniqueness and capabilities of our AIGC solutions. Through holding such events from time to time, we not only increase our customer base but also expand our marketing channels and establish our expertise and branding while fostering meaningful connections with our end users. In the long run, we aim to forge stable strategic alliances that will allow us to continuously tap into their customer base, leverage their marketing channels and share our common values and resources.

These advertising efforts through both online and offline channels have effectively expanded our reach and heightened our brand awareness, translating into tangible customer acquisition of our solutions. We believe these marketing technical and promotions will help us lead to a larger user scale, greater user engagement, higher paying ratio from active users, an expanded paying user base and increased average spending per user. Our large user base and vibrant community will also attract more high-quality business partners to collaborate with us to explore various monetization opportunities. This will enable us to increase our revenue through enhanced monetization capabilities.

(ii) Exploring collaboration opportunities with reputable business partners

We will continue to regularly promote and optimise strategies to maximize the monetization of users who demonstrate high paying potential and substantial purchasing capability.

As of the Latest Practicable Date, we were in the course of negotiating with three leading enterprise cloud service providers in China, who focused on the cloud computing industry with data intelligence and visual intelligence as its core, and intended to acquire our underlying technologies in our self-developed large language model, "Sequence Monkey'. As these enterprises do not have their own large language model, we will provide them with our advanced underlying technologies in relation to "Sequence Monkey" and they will integrate our underlying technologies with their compute storage and cloud systems to advance their cloud computing services and solutions. They will lease their services and solutions to those major enterprises in the financial industry after the integration. We believe that cooperating with these cloud service providers will become lighthouse cases for our Group's underlying technologies and successful precedents for our Group to market and promote our large language model's business, in particular, opens up the opportunities for our Group to cooperate with other companies from the same industries.

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AI Software Solutions — AI enterprise solutions

We strive to ramp up the future average contract value of enterprises and will invest resources in enhancing our AI and NLP technological capabilities to add value in our AI enterprise solutions which serves as an incentive in increasing the purchase intent of enterprises. Meanwhile, we will explore new business opportunities with existing enterprises based on the potent relationship built to maximize the client value.

We will focus on expanding the enterprise client base in industries whereas (i) our AI enterprise solutions can solve pain points of the industries (such as, by reducing cost and increasing efficiency); and (ii) reach potential enterprises with purchasing power, including automotive, finance, TMT and others such as healthcare and retail industries. Moreover, we will continue to explore business opportunities to provide products and services utilizing our accumulated technology and IPs as well as our expertise in large language models. We believe we can capture new revenue opportunities in assisting our enterprise clients in building training and adopting the latest large language model technology.

We intend to leverage our deep industry knowhow and experience from collaborating and serving industry leaders to further establish our advantages in certain industry verticals and acquire more customers. For example, in the electric smart vehicles verticals which has a great market prospect for our AI solutions, we can benefit from our collaboration with Automotive Sub A during the Track Record Period which serves as a lighthouse case for our technology and products and a successful precedent for our Group to market our IP rights arrangement business, in particular, opens up the opportunity for us to cooperate with other companies from the automotive industry. As of the Latest Practicable Date, we had executed an IP rights arrangements agreement with a PRC leading automotive company in providing source coding services. For details of the above IP rights arrangement projects, please refer to the paragraphs headed "— Our Solutions — AI Software Solutions — AI enterprise solutions — IP rights arrangements with Automotive Sub A" and "— IP rights arrangements with a technology development subsidiary of a PRC domestic automotive group" in this section. In addition, we have reached comprehensive technical cooperation agreements with various automotive companies. For instance, we cooperated with another PRC leading automotive company in 2022 to test our large language model and develop its applications. In May 2023, we entered into a technical cooperation framework agreement with a joint venture company established by a few leading PRC domestic automotive companies to develop smart cabin equipped with voice assistant, smart housekeeper and speech recognition and generation technology.

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We will also grow our customer base, deepen customer relationships and continue working with customers that are market leaders with deep industry knowledge and abundant scenario data to support model production, with an aim to empower more industry verticals where digitalization is the greatest need. We plan to establish more strategic partnerships with leading companies in different verticals or internet giants and develop tailored marketing strategies to acquire more users. In addition, we will further optimize and enhance the functions of our solutions so that they can be applied in new scenarios and verticals. We have 57 enterprises customers excluding high-value clients for the year ended December 31, 2023, compared with 46 for the year ended December 31, 2022, and are actively in discussion of potential business with over 30 new customers from various industry verticals covering finance, utilities, e-commerce, logistics, artificial intelligence of things, manufacturing and healthcare, and this could help us further diversify our revenue and customer base.

To utilize our accumulated technology and developed IPs, as of the Latest Practicable Date, we had also entered into two IP rights arrangement agreements with a PRC enterprise that sells photography, recording equipment and accessories and a PRC enterprise that designs and sells smart devices, respectively, in which we would be able to utilize the IP rights and technologies that we developed through our IP rights arrangements with Automotive Sub A, bringing the possibility of faster delivery and lower development costs, which also contributes to our healthy gross profit margin for AI enterprise solutions compared with other project-based industry peers.

In addition, we face intense competition in the industry which is likely to remain intense due to the relatively large number of market players. Nevertheless, we generally do not participate in direct price competition (including the adoption of aggressive pricing strategies such as providing price ceiling plans), and our Directors are of the view that direct price competition is not a material risk to our business and profitability but rather differentiates ourselves from our competitors through our proven track record and our strong relationship with our clients. Therefore, we compete effectively through, inter alia, understanding our clients' needs, further enhancing our AI capabilities by regularly upgrading new technologies and commercializing our large language models and further maintaining an efficient and lean cost structure for all our high-end solutions and products. In light of this, our Group has been actively looking for opportunities for commercialization of our large language models. As of the Latest Practicable Date, we were in the course of negotiating with a PRC insurance company and a leading PRC supplier of LED products and system solutions who wish to utilize our large language models to enhance operational efficiency and strengthen selling and marketing efforts. To achieve this, we will apply our large language models to the technical know-how of our clients, which, through continuous professional trainings, is expected to provide intelligent tailor-made solutions to the end customers of our clients, so as to improve interaction experience and reduce operational costs including labor costs. We believe that our extensive experience in working with our past and existing customers, our in-depth understanding of the AI industry as well as possession of

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advanced large language model technology have laid a solid foundation for our Group to commercialize our large language models which we believe will be able to bring returns to our Group. We also believe that these projects will become lighthouse cases for our Group's large language model technology and successful precedents for our Group to market our large language model business, in particular, opens up the opportunities for our Group to cooperate with other companies from the same industries. With our competitive strengths as set out in the paragraphs headed "— Business Sustainability — Our path to sustainable profit" and "— Our Strategies" in this section, we consider that we generally compete well against our market peers in Asia.

Moreover, by introducing high-end technologies and robust capabilities, we can enhance our user acquisition efficiency and improve our monetization capabilities and are able to monetize our active user base as well as increase our average revenue per paying users which in turn generates more revenue for our Group. We will continue our efforts in optimizing our AIGC solutions in order to convert more non-paying users to paying users and increase paying users' spending.

We also plan to (i) recruit and retain more experienced AI talents with in-depth industry knowledge to (a) strengthen our launching and marketing team, thereby leveraging our industry-specific sales experiences to expand users and (b) to enhance our research and development capabilities so as to upgrade and optimize our modelling technologies to carry out model training; and (ii) expand and explore new application scenarios with our large language model with multi-modal generative capability, "Sequence Monkey", to cover new industry verticals and to further popularize AGI to all industry verticals. We will also continue to cooperate with other enterprises to enhance the commercial value of our AI technologies by leveraging our AI technologies and offering a wider variety of effective AI-based products and solutions suitable for different business application scenarios other than automotive, finance and TMT, thereby strengthening our market position in the AI enterprise solutions industry in China. For details, please refer to the paragraph headed "— Our Strategies — Continuously improve and enrich our solution matrix — To enterprises: Optimizing the capabilities of AI CoPilot in different application scenarios" in this section.

Smart Devices and Other Accessories

We intend to provide diverse, software-hardware integrated smart devices to worldwide users. Our smartwatch business has been steadily prospering and we have maintained long-term relationship with world-leading chipset companies and software companies. We will be able to stay ahead in the market and launch first flagship products with Semiconductor Corporation A's flagship wearable platforms. In particular, we were the first to launch smart watches with the operating system for wearable devices developed by Technology Corporation A building on leading chipset platform developed by Semiconductor Corporation A.

BUSINESS

We have developed and will continue to develop user-friendly software solutions for our smartwatch devices. As of the Latest Practicable Date, we had already brought several software applications to commercialization, such as TimeShow, TicSleep, TicHealth and TicExercise. We will launch new software applications to expand the source for revenue generation and increase the value of our smart devices with a view in boosting the sales revenue with a higher pricing for our Smart Devices and Other Accessories.

We have been consistently introducing new TicWatch models since 2015. Our fifth generation flagship TicWatch Pro 5 was successfully launched in May 2023. The first launched model of our TicWatch Pro 5 series introduced a significant upgrade, particularly in terms of the operating system and the processing performance. The new flagship model showcases enhanced processing efficiency and performance compared to its predecessor, the TicWatch Pro 3 series. This provides the new flagship series with a more solid foundation to incorporate the capabilities developed by us over time.

Looking ahead, we have plans for upcoming TicWatch launches and developments. We focus on expanding the range of software applications available for TicWatch devices. We are also aiming to incorporate generative AI capabilities directly into our TicWatch series. We believe the exciting advancement will enable our TicWatch series to generate personalized content, responses, and recommendations based on user preferences and contextual information. By harnessing the power of generative AI, we aim to enhance the user experience and provide even more intuitive and tailored features within the watch itself. We aim to incorporate health copilot into future models of the TicWatch Pro 5 series through an application, enabling the collection of health-related data and its analysis either locally or through our backend large language model with multi-modal generative capability, "Sequence Monkey". Through utilization of such generative AI capabilities, this empowers the device to provide personalized health insights and guidance to users, thereby enhancing their overall well-being. This integration of generative AI represents our commitment to pushing the boundaries of wearable technology and delivering cutting-edge innovations to our customers.

After the impacts from the COVID-19 pandemic have substantially ended, the development of our smart devices have returned to normal. Since the launch of our flagship TicWatch Pro 5 in late May 2023 and up to December 31, 2023, a total of approximately 41,400 units of TicWatch Pro 5 were sold, with an average selling price of RMB1,953. We expect to launch two new models under the TicWatch Pro 5 series which integrate WearOS during the period between the second quarter of 2024 and the fourth quarter of 2024. These new models are designed as hardware upgrades to the existing TicWatch Pro 5, offering enhanced battery life and superior materials for the screen and watch strap, highlighting their superior quality compared to the existing TicWatch Pro 5 model.

BUSINESS

To prolong the lifespan of the TicWatch Pro 5 series and minimize the risk of cannibalization of sales among the same series, we will, by leveraging our experience with the sales of our previous flagship TicWatch Pro 3 series, adopt the following strategies:

(i)   Continuous launch of new features

Given that the entire series of TicWatch Pro 5 will adopt the same central processor chipset, we do not anticipate that the launch of new models will cannibalize the sales of older models. Throughout the lifespan of the series, we will continuously introduce new features that can be incorporated into our smart watches through software updates and applications, offering enhanced capabilities in the field of digital health. For instance, we will optimize the refresh rate of our applications to more accurately and frequently reflect health data, particularly during intense sporting activities, thereby providing real-time insights for users. Additionally, we will enable automatic recognition of exercise equipment, including popular machines like elliptical trainers and rowing machines, to gather health data during indoor sporting activities. We will also continue to improve our algorithms to cover a wider range of sports activities and optimize our large language model to enhance the interactive process of providing personalized health insights to our users.

By providing software and application updates, as well as introducing new applications, we can extend the lifespan and functionality of our older models, making them appealing to a broader customer base who may not be ready to upgrade to the latest device but still desire access to new features and improvements. Older models are presented as affordable options to budget-conscious customers who value the overall capabilities of our smart watches.

(ii) Controlled launch time

We will carefully control the launching time of new models of TicWatch Pro 5 series. By strategically planning the launches, we can ensure that each model receives ample attention and market space, thus optimizing customer interest and sales potential, without dilution of sales by excessive competition among the models.

(iii) Complimentary marketing activities

We will promote the entire TicWatch Pro 5 series through an overall brand appeal. Crediting the longevity of our older models, which can be enhanced through software updates and applications, the marketing campaigns surrounding the launch of new models will also benefit the budgeted options that include older models.

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By reason of the above, we do not anticipate the release of new models would result in any material cannibalization of sales of the existing TicWatch Pro 5 model or the overall TicWatch Pro 5 series before the launch of any next flagship product.

Furthermore, we are actively exploring opportunities for overseas expansion to solidify our presence in international markets. We have been cooperating with certain large overseas distributors to increase our market exposure and we will continue evaluating potential partnerships and market entry strategies to introduce our smart devices to a wider global audience.

Enhancing our technology capacity and improving our offerings' overall competitive strength

Our Company is one of the market players in Asia possessing the ability to build large language model with multi-modal generative capability. Leveraging paying users' interactive data, we can achieve rapid iteration of our large language model and hence launch competitive AI CoPilot solutions.

We will continue to improve and enrich our solution matrix. In line with our strategy, we will continue to invest in optimizing on capabilities of our "Sequence Monkey", a multi-modal large language model. We intend to utilize the data acquired from various industry verticals during our business operation to accelerate the iteration of "Sequence Monkey" and continuously improve our solutions. Further, we plan to enter into long-term cooperation agreements with leading cloud server companies and continue to work with those market leaders with deep industry knowledge, as such, we will continue to expand our computing power so as to continuously improve and refine the accuracy of our large language model and our AI CoPilot solution matrix, which are expected to empower content creators, enterprises and consumers and improve our competitive strength.

Geographical expansion

We plan to achieve a stronger global footprint through strengthening our launching and marketing capabilities and enhancing strategic partnerships with leading companies and cities in targeted geographies, including but not limited to North America, Europe, Southeast Asia and Greater China. In order to broaden our customer base in the regions abovementioned, we have recently engaged KOLs to promote and advertise our AIGC solutions on various social media and online platforms which are accessible to the public domestically and internationally. We also maintain a list of national and regional KOLs, which is updated from time to time. In the fourth quarter of 2022, we set up an office in Singapore. We will continue to expand domestically and internationally in other regions and expect to increase our global presence in the near future.

BUSINESS

On the other hand, we strive to enhance our ability for globalization, in order to grow the purchase intent of overseas content creators, together with our globalized genes accumulated in our Smart Devices and Other Accessories business, we believe that globalization strategy will further contribute to the future growth in our revenue. Specifically, we are committed to an ongoing process of domestic development, as well as regular transformation and globalization of our AIGC solutions. "DupDub" was launched in 2022, marking our entry into the international market. Since the launch of "DupDub", we have been consistently expanding our comprehensive support for language support, which now encompasses 37 languages. We will continue to explore the multilinguality of our platform. As of December 31, 2023, we had created an all-in-one content creation platform in "DupDub", of which all AIGC solution matrix in "Mozhuan Writing" were successfully incorporated in "DupDub" in July 2023 so as to be free from geographical restrictions, tailored and iterated our offerings to meet different users' demand worldwide. Features in "Weta365" such as video editing and AI avatar were also launched and successfully incorporated into "DupDub" in August and September 2023, respectively. Positioned as an all-in-one content creation platform, "DupDub" caters to a diverse range of user groups and offers a seamless user experience for overseas users. The adoption of a unified platform bearing one brand name and covering wider user groups provides a more cost-effective approach to penetrate the overseas market. Additionally, we periodically integrate domestically developed technologies into this unified international platform.

Maintaining our cost structure leveraging our continuous research and development efforts and enhancing our operational efficiency

Controlling and maintaining the gross profit margin

We expect our overall gross profit margin will decrease given that our IP rights arrangements with Automotive Sub A was completed in June 2023. To increase our gross profit margin, our smart devices will focus on overseas market in which our products are more recognized and launching flagship products with higher gross profit margin, enabling us to establish stable win-win relationship with our core suppliers more easily. For our AI Software Solutions, we will take into account the direct costs in determining the pricing for our AIGC solutions and AI enterprise solutions, enabling us to control and maintain our gross profit level.

Effectively managing our cost of sales in revenue-generating activities

Our ability to manage and control our costs and operating expenses is critical to the success of our business and our profitability.

BUSINESS

Our cost structure is affected by the revenue mix. We expect our cost of sales as a percentage of revenue will generally decrease in the long term as we will continue to expand our activities in AIGC solutions which are generally of a higher gross profit margin and we will continue to optimize our inventory level and improve demand forecast, in order to avoid overstocking and understocking to minimize avoidable costs, such as storage and obsolescence.

Investing in research and development in a cost-effective way

To lead and stay abreast of the latest development of the ever-evolving AI technologies, it is crucial for us to maintain our market position and expand our source of revenue by developing new technologies, functions and features of our solutions.

We have incurred substantial research and development expenses during the Track Record Period to support launches of our products and solution offerings, which increased from RMB91.5 million in 2021 to RMB118.7 million in 2022 and further to RMB154.7 million in 2023. We expect our research and development expenses to grow alongside our business growth driven by our continual investment in R&D activities on our AI technologies to provide more products and solutions catering to customers' diversified demand across industry verticals. However, our investments in R&D may not immediately generate revenue as they are aimed at creating new revenue streams for long-term business growth. We expect to record an increase in our R&D expenses and the proportion of R&D expenses to our total revenue, which is primarily due to an expected decrease in revenue from our AI enterprise solutions in the short term given the completion of the IP rights arrangements with Automotive Sub A in 2023. For more details of the said IP rights arrangements, please refer to the paragraph headed "— Our Solutions — AI Software Solutions — AI enterprise solutions — IP rights arrangements with Automotive Sub A" in this section.

Further, our R&D expenses are expected to continuous increase as we ramp up investment to enhance our technology competitiveness, for example, we will continue to train our large language model with multi-modal generative capability, "Sequence Monkey", by enhancing our existing computing power to increase its scale, versatility, and computational accuracy. Nevertheless, we believe that our R&D expenses will generally decrease as a percentage of total revenue in the long run due to the following factors:

- we expect to have stronger bargaining power against our suppliers for outsourced research and development services as we scale up, and are thus able to obtain more favorable pricing terms;

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- leveraging our large language model's capabilities accumulated in the AI industry, we believe we are able to consolidate various industry data and marketing information from time to time, including customers' preferences and terminologies and case studies from different industries. Further, we will also acquire more comprehensive market data from various industry research groups to strengthen our data analytical capabilities. Through the above processes, we believe we are capable of possessing and accumulating market intelligence, and are well-positioned to provide more comprehensive and cost-efficient AI research and development services to our end users; and

- we plan to continuously upgrade, iterate and optimize our "Sequence Monkey", a multi-modal large language model, to improve the capabilities of our AIGC solutions, and thereby to better adapt to user needs, as disclosed in the below paragraph.

In the future, we will continue to invest resources in our R&D capabilities in a cost-effective manner in line with our strategies. Further, we will continue to train our large language model with multi-modal generative capability, "Sequence Monkey", by enhancing our existing computing power to increase its scale, versatility, and computational accuracy. We will also closely monitor the market trend and content creators' demand, so that we are able to launch new functions, features and solutions to cater for the content creators' needs changing from time to time ahead of the industry and expand our offerings and enhance the competitiveness of our solutions.

Conducting selling and marketing activities efficiently

We will continue to seek out marketing channels which have higher conversion rates and offer higher returns and lower costs in order to replace those underperforming channels which cannot attain the average level of effectiveness.

As of December 31, 2023, our marketing team and our sales team had a total of 21 employees and a total of 37 employees, respectively. The selling and marketing expenses decreased from RMB105.9 million in 2021 to RMB97.1 million in 2022 and increased to RMB150.7 million in 2023, the proportion of the expenses to the total revenue increased from 19.4% for the year ended December 31, 2022 to 29.7% for the year ended December 31, 2023. We will keep monitoring and controlling the advertising budget to achieve precise advertisement investment and hence improving the overall marketing efficiency. In the future, our marketing team will devote resources to promoting our solutions in increasing the visibility of our solutions in overseas market.

BUSINESS

We expect that our sales and marketing expenses and the proportion of sales and marketing expenses to our total revenue will increase in the short term and the latter will generally decrease in the long term, due to the following factors:

- we expect our selling and marketing expenses will decrease in the long run as the segment of our AIGC solutions was in its early stage of explosive revenue growth and thus needed more marketing and advertising efforts to educate market and early adopters during the Track Record Period;

- we will constantly monitor the sales and marketing performance of our personnel to ensure they are complying with our cost control measures; and our management will also from time to time communicate with them on their experience of cost control;

- we expect to accumulate a larger user base and higher user stickiness as we continuously solidify our market position. We expect this will enable us to attract and retain users and, in the long-term, reduce spending on promotions and advertisements. Our ability to accumulate a larger user base is evidenced by the rapid increase in the number of our paying users from approximately 1,000 in 2020 to approximately 410,000 in 2023; and

- we expect that, as we are currently in an expansion phase, significant investment in sales and marketing expenses is required to seize market share in the short run. Additionally, we are more inclined to offer terms favorable to our partners during this phase. When our market position becomes more established, we will shift our focus towards optimizing expenses and exploring cooperative approaches that provide higher cost-effectiveness in marketing strategies in the long run.

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EMPLOYEES

As of December 31, 2023, we had a total of 394 employees and most of them were based in China. The following table sets forth the number of our employees by category as of December 31, 2023:

Category	Number of employees	Percentage of our employees
Research and development	240	60.9%
Sales and marketing	58	14.7%
Operation	34	8.6%
Customer service	20	5.1%
Procurement	4	1.0%
Management, administration and human resources	38	9.7%
Total	394	100.0%

We primarily recruit our employees through internal referral program and online channels, including our company website and social networking website. We devote management and organizational focus and resource to ensure that our culture and brand remain highly attractive to potential and existing employee. During the Track Record Period, we had not recruited any employees through employment agents.

We highly value our employees and place emphasis on the development of our employees. In order to advance the skills and knowledge of our employees as well as to explore new potential from our workforce, we invest in continuing education and training programs for our management and ordinary staff members to update their skills and knowledge periodically, including on-the-job training on, for instance, information security, technical skills and compliance knowledge, to ensure their awareness and compliance with our policies and procedures, as well as the relevant laws and regulations.

We believe that our success depends on our ability to attract, retain and motivate qualified personnel. As such, to remain competitive in the labor market, we provide various incentives and benefits to our employees including competitive remuneration, performance-based promotion system and other incentives. We also provide meal, travel and other allowances. We generally determine employee remuneration based on factors such as qualifications, positions and years of experience. During the Track Record Period, we did not encounter a shortage of AI experts.

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We provide our employees with a pension insurance, medical insurance, unemployment insurance, workplace injury insurance, maternity insurance and housing provident funds. We also provide our employees additional insurance coverage, for example accident insurance. As of the Latest Practicable Date, save as disclosed in the paragraph headed "Legal proceedings and compliance" in this document, we believe we had complied with all applicable laws and regulations relating to social welfare in the PRC in all material respects and have never been penalized for any violation of these laws.

As of the Latest Practicable Date, none of our employees are represented by labor union. We have maintained good working relationships with our employees. During the Track Record Period, no significant labor disputes had occurred which materially and adversely affected our business or were likely to have a material adverse effect on our business.

INSURANCE

As of the Latest Practicable Date, we had maintained insurance policies which we consider to be in line with the market practice and adequate for the operation of our business, including but not limited to accident insurance for employees who are on business trip, transportation insurance for the delivery of products from contract manufactures to our designated locations and credit insurance for trade receivables relating to overseas sales. In line with general market practice, we do not maintain any business interruption insurance, product liability insurance, key-man life insurance or insurance policies covering damages to our IT infrastructure or information technology systems, which is not mandatory under the relevant laws in China. Any uninsured occurrence of business disruption, litigation or natural disaster could expose us to significant costs, which could have a material and adverse effect on our results of operations. For details, please refer to the paragraph headed "Risk Factors — Risks related to our business and industry — Our insurance coverage may not be sufficient to cover all of our potential losses" in this document.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are committed to uphold the principles of corporate social responsibility. We recognize the importance of environmental, social and governance ("**ESG**") matters in all walks of life. As such, we have been in the past, and will continue to be, devoting resources into ESG management.

Environmental protection

During the Track Record Period, due to the nature of our business and that we do not operate in a highly polluting industry, we did not incur material costs in relation to the compliance of relevant environmental laws and regulations. As advised by CIC, our business hardly produce carbon and pollutant emissions in the ordinary course of business as our operations involve neither

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significant consumption of fossil fuels nor release of contaminants to the environment. Despite the environmental impact directly caused by us is minimal, our operations may have indirect environmental impacts, such as the greenhouse gas emissions caused by third-party manufacturers, server service providers and logistic service providers during the manufacturing of products, building of our own IT infrastructure and servers to support our solutions, as well as transportation during logistics service providers' delivery of our products, all of which are counted as scope 3 emissions in ESG disclosures.

Carbon emissions may be emitted by service providers while maintaining IT infrastructures and servers; and logistics service providers may use packaging materials during the delivery, which may not be environmental-friendly. To mitigate our indirect impact through third-party service providers, we plan to strengthen our ESG practices and actively research the carbon footprint of our third-party service providers and enlist environmental protection capability as one of our assessment elements when evaluating such service providers to ensure that our service providers are fully competent in carrying out sustainable operations and exerts continuous effort to minimize environmental impact. When screening those service providers in the future, low carbon will be our top priority criteria with evaluation metrics emphasizing environmental impact, energy and resource utilization, use of renewable energy and other innovative means for producing a smaller carbon footprint.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, we had not been subject to any fines or other penalties due to non-compliance with environmental regulations. Our Group will comply with the ESG reporting requirements after **[REDACTED]** and the responsibility to publish the ESG Report on an annual basis in accordance with Appendix C2 to the Listing Rules.

Metrics and Targets on ESG-related Risks

Energy Consumption and Waste

During the Track Record Period, we have assessed our environmental performance by understanding the environmental footprint and the most significant energy consumption is the use of electricity and water consumption.

BUSINESS

The below table sets forth our electricity consumption analysis for the years indicated:

		For the year ended December 31,		
Indicator	Unit	2021	2022	2023
Energy consumption	MWh	294	274	292
Energy Consumption Intensity.	MWh per million RMB revenue	0.739	0.548	0.578

The below table sets forth our water consumption analysis for the years indicated:

		For the year ended December 31,		
Indicator	Unit	2021	2022	2023
Water Consumption	Ton	191	364	367
Water Consumption Intensity. .	Ton per million RMB revenue	0.480	0.728	0.726

Although we are not subject to material environmental or climate-related risks, we are dedicated to put in efforts towards environmental protection through implementing a number of policies to reduce energy consumption. As such, we implemented the following measures in the course of our business operations:

- save water at washroom and tea room;

- we encourage our employees to practice "paperless working" by using digital working means as much as possible;

- we keep indoor air-conditioning temperature at 25ºC during summer;

- we purchase and use energy-saving equipment such as LED lightbulbs in all offices;

- our administrative staffs perform regular check in our office daily and turn off lights for unused conference rooms or working areas; and

- we post reminders or memos to our employees in appropriate office settings to encourage employees to act environmental-responsibly.

We keep track of our energy consumption as a mean to evaluate the effectiveness of our environmental protection measures. We will continue to monitor our energy consumption in order to re-evaluate the efficiency of electricity and water consumptions in our operations.

BUSINESS

During the Track Record Period, no hazardous waste was generated in view of our Group's business nature. The waste generated by us is non-hazardous in nature, minimal in quantity and mainly from day-to-day work activities. Due to its insignificant amount, our Group does not maintain any waste records. Nevertheless, in order to better implement environmental management, our Group will maintain management strategies such as encouraging recycling resources such as paper and office domestic wastes. We are also committed to minimising such waste generation.

With a sustainable perspective, we will continue to minimize our environmental impact through monitoring our energy consumption. In order to better manage our ESG risks, we have set multiple ESG-related targets, taking into account our existing ESG-related performance indicators and ESG-related measures that will be implemented in the future. These ESG related targets aim at assessing, managing and reducing energy consumption and these primarily include:

(i) striving to reach approximately 50% of installment of LED lighting system in our data centers and offices in the following five years;

(ii) striving to reduce the electricity consumption per revenue generated by us by 5% by 2025 compared to 2023; and

(iii) striving to reduce the water consumption per revenue generated by us by 5% by 2025 compared to 2023.

Social responsibility

Employee caring

We consider employees valuable assets to us, who had made significant contribution to our success. We recognize the importance to have a work-life balance for our employees.

Prior to the COVID-19 pandemic, we held various events to provide a warm and friendly working environment for our employees, such as birthday parties, sports competitions and team dinners. We will resume organizing such events as appropriate. By participating in these leisure events, we believe our employees can maintain good mental and physical health, which is crucial to enhance efficiency at work.

We are obliged to provide a safe working environment for our employees. We have adopted flexible and remote working during COVID-19 pandemic so as to minimize the potential risk of being infected. We also regularly provide fire safety and other work safety trainings so as to promote office safety. During the Track Record Period, we had none fatal work injuries.

BUSINESS

Charitable events

As an effort to fulfill our corporate social responsibility, we regularly attend charitable events so as to provide supports to the community. We had participated in charity sale and co-organized charitable events with charity organizations for people with disabilities in the past. We plan to organize and participate in more variety of charitable events in the future.

Governance

ESG governance

To carry out appropriate ESG governance policies, we are in the process of optimizing our corporate structure for the scrutiny of ESG matters. We plan to adopt a comprehensive ESG policy and establish an ESG committee within one year of the **[REDACTED]** to assist the Board to oversee and implement our ESG initiatives. In addition, we intend to set up an ESG task force, which would be responsible for the formulation, implementation and evaluation of our ESG initiatives and report to our ESG committee regularly. Our Directors, together with the ESG committee, will continue to monitor and review our ESG-related policies regularly to ensure the implementation of such policies remains cost-effective and efficient.

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 in relation to health, work safety or environment regulations which had materially and adversely affected our business, results of operations and financial conditions. Given that our business does not generate significant pollutants or greenhouse gas emission, we leave limited impact on the environment with a small carbon footprint. In light of such business nature, environmental- related and social-related risks and climate-related issues are not likely to have material negative impacts on our business, strategy and financial performance going forward. During the Track Record Period and up to the Latest Practicable Date, we had not incurred material capital expenditures or compliance costs related to climate and environmental protection. We also do not anticipate to incur material capital expenditures or compliance costs related to climate in the foreseeable future.

RESEARCH AND DEVELOPMENT

As AI technologies continues to evolve rapidly, our ability to develop new technologies, new solutions and enhance existing solutions is critical for maintaining our market position. As such, we have invested significant resources in our research and development activities.

BUSINESS

We established an AI lab in Beijing in 2017, which focuses on research and development of cutting-edge AI technologies. Additionally, we also collaborate with labs of leading domestic universities. Our collaborations with such labs include jointly conducting research projects, jointly publishing academic papers, and jointly training PhDs. Since 2018, we had jointly or on our own published at least 12 academic papers in top academic conferences including Interspeech, International Conference on Acoustics, Speech, and Signal Processing (ICASSP), Empirical Methods in Natural Language Processing and International Joint Conference on Natural Language Processing (EMNLP-IJCNLP) and Pattern Recognition and Machine Learning (PRML). In 2023, we have submitted another three academic papers to Interspeech. We believe such engagement can enhance our exposure to advanced technologies, thereby maintaining our market leadership and competency.

Our research and development staff comprise algorithm engineers, software engineers, hardware design engineers, data engineers, product managers, testing engineers, researchers and scientists. As of December 31, 2023, our research and development team consisted of 240 members, accounting for 60.9% of our total number of employees. We incurred RMB91.5 million, RMB118.7 million and RMB154.7 million in research and development expenses for the years ended December 31, 2021, 2022 and 2023, respectively, representing 23.0%, 23.7% and 30.5% of our total revenue during the same years. Our research and development capabilities have been recognized by various levels of the Chinese government and industry associations. For details, please refer to the paragraph headed "— Business — Awards and recognition" in this section.

Research and development process

Our research and development department maintains close interaction with our sales and marketing department to understand specific needs of customers, thereby developing and bringing solution that address such needs in a timely and cost-effective manner. When commencing a research and development project, our research and development department conducts pre-research on AI algorithms and develops a prototype system based on our innovative technologies and customers' needs. Each of our research and development projects is subject to the approval of our senior management team, who reviews the performance of prototype systems and the maturity of relevant technologies, and makes the final decision on whether to initiate a new project. When the project is approved, a project team will be established to further develop technologies as well as to conduct solution design. Our testing team will test the work-in-progress and send it to customers for comment on a regular basis, while our research and development team will continuously optimize the solution to address concerns of our testing team and customers. Our 3D art engine team is responsible for developing and maintaining 3D assets and application engines, providing various graphics rendering and physical simulation functions. Upon final acceptance by customers in a real scenario, our solution will ultimately be launched.

BUSINESS

Major research and development project

Subsequent to the Track Record Period, we have launched a development project to upgrade our "UCLAI," which is named as "Sequence Monkey", which is equipped with language-centered and multi-modal generative capabilities. Our "Sequence Monkey" had already possessed natural language understanding, knowledge, logic and reasoning capabilities.

TECHNOLOGIES

AIGC technologies

In 2013, we developed a voice search engine from scratch, which entails the development of ASR, TTS and NLP, being the early form of AI CoPilot. Over the years, we have been creating and applying cutting-edge technologies to drive our development and deployment of AI Software Solutions and Smart Devices and Other Accessories. We employ AIGC technologies into our solutions such as AI voiceover, AI copywriting and AI virtual characters. AI voiceover technologies is mainly based on speech synthesis, voice conversion, and voice cloning. AI copywriting technologies primarily provides content creators with auxiliary platforms for copywriting, such as sketching outlines for short videos and producing marketing copywriting and so on. AI virtual characters technologies extract the bottleneck features of the speaker through ASR model and render 3D facial sequences with facial expression coefficients. We apply our technologies to provide our clients AI CoPilot with voice interaction and content generation technologies.

"UCLAI" and "Sequence Monkey"

We are a market player in China that focuses on large language models. In 2020, we have developed our large language model, "UCLAI". In 2023, we further upgraded our large language model, "UCLAI", to "Sequence Monkey", and started to test internally. "Sequence Monkey" is equipped with multi-modal generative capability. Its language-centered system covers six dimensions, including knowledge, dialogue, mathematics, logic, reasoning and planning. Together with our established vertical modules of sound, dialogue language and image, we are capable of supporting text, image, 3D content, speech generation and speech recognition. As of the Latest Practicable Date, our "Sequence Monkey" had already possessed natural language understanding, knowledge, logic and reasoning capabilities. With the continuous data and algorithm iteration, it is going to become a prominent large language model with multi-modal generative capability in China.

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"Sequence Monkey" can be categorized as a multi-modal large language model with a decoder-only network structure. Our R&D team conducted trainings on our "Sequence Monkey" with up to hundreds billions of parameters. The model trainings consist of several stages including (i) pre-training; (ii) fine-tuning under supervision; and (iii) reinforcement learning from human feedback.

Both UCLAI and Sequence Monkey are self-developed and owned by our Company.

WeNet

We introduced WeNet, the end-to-end voice recognition open-source tool, in February 2021. It is committed to bridging the gap among end-to-end model research and solution implementation. We introduced (i) U2, a unified two-pass framework and a built-on runtime to handle both streaming and non-streaming decoding, and (ii) U2++, a two-pass framework with bidirectional attention decoders that consists of a right-to-left attention decode to improve the representative ability and rescoring stage performance. WenetSpeech, the open-source corpus, contains over 10,000 hours of speech data in Chinese for speech recognition.

Within only six months after its release, WeNet has gained over 2,000 stars on Github, one of the world's largest code hosting platforms, becoming the most popular industrial end-to-end voice recognition tool which is being applied across different industries. Apart from granting the enterprises free license to utilize our WeNet, we also provide them with commercialization and technical support.

Though WeNet is self-developed, it is not owned by our Company as it is released as an open-source project on GitHub. WeNet is not-for-profit and does not have any contribution to the Group's financial performance during the Track Record Period.

Voice-enabled end-to-end language technologies

For years, we have devoted ourselves to the research and development of language technologies covering the entire lifecycle of voice interaction, encompassing:

•   *DSP (Digital signal processing)*. Voice signals will be digitalized by specific convertors and then delivered to digital signal processors for further processing, including voice localization, directional capture, signal enhancement, beamforming, echo cancellation, echo residual suppression, noise reduction and dereverberation. By directionally capturing voice signals and effectively processing as well as optimizing the same, our DSP technologies function well in multiple scenarios, and deliver precise voice signals with high quality for subsequent procedures.

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- *Hot words triggering*. Capture hot words and trigger devices through long-term monitoring. We have developed a precise hot-word trigger system with ultra-low power consumption in order to adapt to digital signal processors, micro control units or low-end central processing units.

- *ASR*. ASR technologies convert voice into text. Focusing on semantic analysis, ASR technologies are typically used for transcription, translation, text extraction and automatic axis printing. In addition, ASR also serves as the training framework for WeNet.

- *NLU (Natural language understanding)*. The main function of the NLU module is to map the user's natural language input into the user's intention and the corresponding slot value. Our NLU technologies can accomplish a broad range of functions including intention recognition, slot filling, domain classification and normalization.

- *NLG (Natural language generation)*. NLG technologies convert computerized data into natural language that is grammatically correct and fluent. Relying on end-to-end deep neural network technologies, our NLG technologies can generate multiple languages and dialects including Mandarin, Cantonese and English, and offer a variety of pronunciations as well as tones.

- *Dialogue management*. Dialogue management technologies comprise dialogue modeling technologies, whereby dialogue status can be closely tracked, and dialogue control technologies, whereby the next actions can be determined. Our dialogue management technologies support multi-round human-machine dialogues in various scenarios, such as task-based scenario, Q&A-based scenario, and chat-based scenario, and enable a free and seamless switch across such scenarios.

- *TTS (Text-to-speech)*. TTS technologies convert text into a natural voice. Our TTS technologies support both monolingual and multilingual outputs, with appropriate emotion infused. Evidenced by MOS scores of over 4.2 in various scenarios, we are capable to deliver quality voice outputs. MeetHiFiVoice, the Mobvoi End-to-end TTS HiFiVoice System, can generate multi-lingual humanoid voice of various emotions with low latency.

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While developing the above AI technologies, we continuously focus on optimizing the following aspects:

- *Minimize end-to-end response time*

We have achieved near real-time voice search experience through the proprietary integrated and individualized optimization of the end-to-end pipeline, including ASR, NLU and TTS. We also developed a comprehensive end-to-end latency monitoring and tracking system for performance evaluation that allows constantly optimizing the end-to-end response time to improve users' satisfaction rate.

- *Optimize end-to-end search quality*

User experience depends directly on the end-to-end search quality that measures the percentage of customer satisfaction in user queries. Our dedicated search quality team conducts voice search satisfaction surveys periodically to continuously improve search quality by fixing bugs and adopting new technologies. To better serve user's broad range of queries, we have also connected with over 100 content/service providers who could provide information including weather, hotel, flight, train, restaurant, music.

- *Optimize for flexibility in extending to new domains and languages*

We have developed a pipeline-based language processing engine with numerous building modules. It is easy to compose these modules dynamically to form an end-to-end solution that satisfies the specific needs of a new application domain. Moreover, the modules are mostly language independent, so extending our language processing engine to a new language involves mainly pre- and post-processing of the input/output data, but not modifying intermediate modules. We also provide visualization tools for non-engineers to easily configure, test, debug, and bugfix the system.

- *Optimize the embedded platforms*

While our algorithms can run efficiently in the cloud, they have also been ported and highly optimized to run in many embedded platforms. We have spent tremendous research and engineering efforts, including but not limited to optimized data structure, hardware-dependent instructions, and performance profiling, to make our full stack voice interaction technologies (including DSP, hot-word trigger, ASR, NLU and TTS) run on resource-limited onboard devices without needing the Internet.

Our language technologies are self-developed and owned by our Group.

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AI-empowered technologies in smart devices

We have developed a diversified set of Smart Devices and Other Accessories, which are usually software-hardware integrated smart devices and accessories. Product mechanics are carefully designed to integrate these components ingeniously with small, thin, lightweight, and elegant appearance and durability. Software and AI modules are designed to make full use of the hardware capabilities. We continually update our technologies to achieve the following common themes of design considerations.

Our AI-empowered technologies involved in our Smart Devices and Other Accessories are self-developed and owned by our Group.

- *Optimize for AI integration*

    Our Smart Devices and Other Accessories are usually preloaded with our own AI modules, such as voice assistant and TicMotion. To support these computationally heavy AI algorithms with the limited resources on our Smart Devices and Other Accessories, we ported the algorithms into different low-resource chipsets and optimized their performance using special architecture and instruction sets from the chipsets. We also developed a dual-system solution where light-weight algorithms run continuously on the low-resource but minimum-power-consuming chipsets, such as the sensor hub, and heavy-weight algorithms run on-demand on the resource-rich but high-power-consuming chipsets. In addition, to more efficiently support the voice assistant, we developed a proprietary Bluetooth protocol (instead of the common HFP protocol) to minimize the latency between wearables and their connected Mobile phone.

- *Digital health enabling technologies*

    We believe that digital health is the next wave of technology innovation; therefore, we have been continuously investing in this area and built up our technology niche in health wearables. Heart rate is one of the most important vital signals. We developed our own heart rate monitoring solution based on the High-definition Photoplethysmography (HD PPG) technologies, achieving accuracy comparable with the traditional chest strap heart rate monitor and well acknowledged by users. We also developed our own blood oxygen monitoring technologies, and successfully deployed it on our launched smart devices. We have also developed a series of other digital health technologies such as HRV (Heart Rate Variability) for stress monitoring, breath rate measurement and sleep tracking.

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- *Minimize power consumption*

Efficient power consumption of AI smart devices is vital to customer satisfaction. It is a known obstacle to wearables due to their thin and slim appearance, which limits the battery size and hence capacity. To overcome the challenge of offering long battery life on small devices, we work closely with our battery suppliers to develop high-density battery technology, which can provide maximum battery capacity in a limited space. We also work closely with many key component providers to minimize power consumption.

We have developed our own patented dual-layer display and dual system to solve this problem. Display is a major contributor to power consumption of smart watches. Our dual-layer display solution reduces power consumption without compromising user experience. Specifically, we integrate two displays (AMOLED and FSTN) into one module. The FSTN display (top layer) is a transparent liquid-crystal display (LCD) with low power consumption, high visibility in direct sunlight and high transparent quality when the display is not turned on, meaning the brightness and colors of the organic light-emitting diode (OLED) display, which is the bottom layer, aren't compromised when in use. The power to switch between the two displays and their related "modes" allows the users to achieve unprecedented battery life and control over their battery usage. We developed a smart algorithm that supports seamlessly automatic switching between the two display modes when needed, namely the Smart Mode and Essential Mode.

- *2G/3G/4G related technologies for independent usage scenarios of smart watches*

A growing usage need for smart watches is to be independent of a mobile phone or even partly replace it in many usage scenarios. It then demands smart watches constantly connected with the cellular network. We have accumulated extensive experiences in cellular technologies for wearables, with many models of TicWatch support 2G/3G/4G voice call and data connection.

A key technical challenge in supporting 2G/3G/4G on smart watches is antenna design due to the size and appearance limitation of smart watches. We have developed a patented antenna technologies, which cleverly leverages essential mechanical parts to improve the antenna performance. Metal deco in our TicWatch flagship products is not only an appearance part, but also a cellular antenna. The specific solution improves LTE over-the-air (OTA) performance. Meanwhile the metal deco antenna enhances Right Hand Circular Polarization (RHCP) electro-magnetic wave, thereby increasing positioning performance.

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Another important innovation related to 2G/3G/4G is the eSIM. We developed our own local profile assistant (LPA) solution for eSIM provisioning, the LPA solution is fully GSMA compatible, by which the eSIM that uses the Global System for Mobiles (GSM) network, and has been certified by tier one operators.

INTELLECTUAL PROPERTY

We regard our copyrights, trademarks, patents and other intellectual property rights as critical to our business operations. We rely on a combination of copyrights, patents, trademarks, domain name and contractual rights, such as confidentiality agreement, to protect our intellectual property rights. During the Track Record Period, we had entered into employment agreements with our employees with confidentiality clause incorporated which cover any confidential information obtained during the course of employment.

As of the Latest Practicable Date, we had 88 registered copyrights, 593 patents, 804 trademarks and 20 domain names. For details, please refer to the paragraph headed "Statutory and General Information — B. Further information about our business — 2. Intellectual property rights" set out in Appendix IV to this document.

We may, from time to time, be involved in intellectual property disputes where third parties claimed that our products have infringed their IP rights resulting from our external services embedded in our products. During the Track Record Period and up to the Latest Practicable Date, there were 751 lawsuits filed against our Group which were due to disputes over the external value-added services embedded in our products. Subsequently, the relevant parties in such lawsuits reached a consensus on settlement. As of the Latest Practicable Date, the series of IP infringement lawsuits had all been settled and the details of the lawsuits are set out below.

In 2017, our Group had signed a cooperation agreement with an associated company of a Chinese multinational technology and entertainment conglomerate ("**Company A**"), in which we agreed to provide users of Company A with our self-developed smart speakers and Company A agreed to provide us with the subscription of its exclusive music albums. In 2019, an associated company of a Chinese multinational technology company specializing in e-commerce, retail, Internet, and technology ("**Company B**") filed 10 lawsuits against our Group alleging that we had infringed their rights to network dissemination of information of music copyrights that they own ("**IP Infringement Lawsuits**") in respect of certain music our Group sourced from Company A that could be played in our Group's smart speakers. To resolve the dispute, our Group, Company A and Company B entered into mediation at the instruction of the court, and pursuant to the civil mediation letter reflecting the outcome of such mediation issued by the court, Company A agreed to pay a settlement fee of RMB116,400 to Company B, and our Group was not liable to pay any of the aforesaid settlement fee.

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In 2020, Company B filed another 741 IP Infringement Lawsuits against both Company A and our Group due to the same reason above. Company A entered into civil mitigation with Company B and full settlement was reached. Neither Company A nor our Group had to pay any settlement fees on the IP Infringement Lawsuits, and as such, we believe the lawsuits abovementioned are immaterial to our Group as a whole.

As advised by our PRC Legal Advisor, based on the civil mediation letter and the settlement agreement entered into among relevant parties in the aforesaid lawsuits, taking into consideration of our implemented internal control measures, all these lawsuits had been settled and the Group was not exposed to any liability of compensation. Our Directors are of the view that these lawsuits did not have any material adverse impact on our Group's business operations and financial performance. Further, during the Track Record Period and up to the Latest Practicable Date, save as the above, there had not been pending or threatening material claims made against us, nor had there been material claims made by us against third parties, with respect to the infringement of IP rights owned by us or third parties.

On the basis of the PRC Legal Advisor's above and the independent due diligence work conducted by the **[REDACTED]**, including but not limited to, (i) reviewing the civil mediation letter and the settlement agreement entered into among the relevant parties in the aforesaid lawsuits made available to the **[REDACTED]**; (ii) interview with the attorney of our Group in relation to the series cases; (iii) conducting background searches and litigation searches to our Group; (iv) discussing with our Company and the PRC Legal Advisor to understand, among others, the background, the reasons for our Group's involvement, and the latest status of the IP infringement litigations; and (v) reviewing and discussing with our internal control consultant (the "**Internal Control Consultant**") in relation to our Group's internal control measures to avoid infringement of third-party's IP right, nothing has come to the attention of the **[REDACTED]** that would cause the **[REDACTED]** to disagree with the views of the Directors and the PRC Legal Advisor.

As regards our AIGC solutions, a user can produce contents with our AIGC solutions by using (i) the content creating resources (including audio, images, text, voice of voice actors and the virtual voice model) that we make available to users on the relevant platforms; and/or (ii) self-provided images or voices of the user. For content creating resources we make available to users, our Group would execute agreements to obtain the IP rights of or licence to use the content creating resources from their original owners, and therefore, neither our Group or the user will infringe third parties' rights when using the relevant resources Our Group will also constantly monitor and review our content creating resources to ensure that they are lawfully obtained and used. For users' self-provided images or voices, the user will retain the IP rights of his or her own image or voice, and our Group would require the user to confirm and undertake the legality of the use of his or her own image or voice. For training data sourced from the Internet, we only source

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data from open-source websites, following their platform governance rules and licensing provisions (where applicable). The open-source websites we rely on are commonly used for AIGC enterprises and allow the utilization of resources for commercial purposes. We filter out personal information present in the data source from the Internet by pattern matching technology, ensuring the prevention of any infringement on personal information rights. In addition, we prioritize the protection of intellectual property rights by establishing a comprehensive framework, including the "Intellectual Property's Legal Dispute Handling Control System" (《知識產權法律糾紛處理控制制度》), "Intellectual Property's Risk Control System" (《知識產權風險管控制度》), "Intellectual Property Maintenance Management System" (《知識產權維護管理制度》) and "Intellectual Property Application Management System" (《知識產權申請管理制度》). These systems are designed to effectively manage and control the risks associated with intellectual property infringement. This rigorous process ensures the proper authorization and legality of the training data we use. Furthermore, we maintain a stringent focus on data quality by a series of measures. Specifically, we (i) filter out websites with sensitive information through URL filtering; (ii) filter out content with navigation bar, social media and advertisements through line-wise filtering rules; (iii) filter out articles with any sensitive words through document-wise filtering rules; (iv) score the training data to filter the low-quality resources; and (v) implement text deduplication through URL deduplication, checksum deduplication and other fuzzy duplication such as MinHash[1] and SimHash[2]. For training data obtained from training data providers, we obtain explicit legal permission through contracts with training data providers. These agreements ensure that the data resources used for training our AI models are legally authorized and comply with all applicable legal requirements. The data suppliers will indemnify us for any breaches that they cause for which we may be held liable pursuant to the agreements we entered into with the data suppliers.

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, none of the resources used, contents created or training data employed by our Group and our users have infringed or potentially infringed third party intellectual property rights resulting in any material complaints, litigations and claims initiated by the corresponding intellectual property owners.

Our PRC Legal Advisor advised that, during the Track Record Period and up to the Latest Practicable Date, there had been no material litigation or other proceedings arising from or in relation to any infringement of third party intellectual property rights.

Notes:

(1) A specific type of Locality Sensitive Hashing (LSH), a class of algorithms that is a popular tool for measuring document similarity.

(2) An algorithm that determines the similarity between data sets.

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Our Group has also adopted a comprehensive set of internal control measures with an aim to protect our intellectual property rights and to avoid infringement of third-party's intellectual property rights, including the following:

- we have adopted policies such as "Intellectual Property's Legal Dispute Handling Control System" (《知識產權法律糾紛處理控制制度》), "Intellectual Property's Risk Control System" (《知識產權風險管控制度》), "Intellectual Property Maintenance Management System" (《知識產權維護管理制度》) and "Intellectual Property Application Management System" (《知識產權申請管理制度》);

- the intellectual property department of our Group ("**IP Department**") perform searches and analysis on related intellectual property rights to make sure our intellectual property rights will not be challenged or being registered by third parties;

- our IP Department files trademarks and patents with the relevant authorities to ensure we are authorized to use the relevant intellectual property. Our IP Department would from time to time monitor the registration of trademarks and the related legal documents so as to ensure the validity of our intellectual property rights;

- in case of any suspected infringement of third-party's intellectual property rights, our IP Department shall immediately seek advice from our legal department and our external legal adviser from time to time, as and when needed to avoid any infringement;

- during the selection process of our suppliers and business partners, through a combination of due diligence and independent investigation by our Group, we strictly assess whether or not the suppliers and/or business partners have legal intellectual property rights or licensed rights over the products they supply and/or provide, in order to mitigate the risk of exposing our Group to any intellectual property infringement claims of components sourced from third parties. We also require both our suppliers and business partners to avoid infringement of intellectual property rights of other third parties; and

- in case of any updates of intellectual property's regulations, our IP Department will provide trainings to relevant personnels so as to ensure they are working in compliance with the latest intellectual property's regulations.

Our Group has engaged the Internal Control Consultant to perform a review over selected areas of our internal control. Based on the Internal Control Consultant's review, they have not identified any significant internal control deficiencies in relation to our Group's internal control measures after the follow up review. Our Directors and the Internal Control Consultant are also of

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the view that, assuming we continue to adopt and implement the above internal control measures, the Group has in place adequate and effective internal control procedures and policies to identify and mitigate any material risks related to the infringement of third-party's rights.

In addition, the Internal Control Consultant reviewed our Group's implementation of the requirements set forth under the Interim Measures for the Administration of AIGC Services and no material deficiencies were identified. For the requirements implemented, please refer to the paragraph headed "Regulatory Overview — Government Policy related to AI Industry" in this document.

Based on the currently available information and the independent due diligence work conducted by the [REDACTED], including but not limited to, (i) discussing with the Company to understand its business nature and internal control policies on intellectual properties; (ii) discussing with the PRC Legal Advisor of the Company and the [REDACTED] and the data security counsel; (iii) reviewing the legal opinions issued by the PRC Legal Advisor of the Company and the data security report issued by the data security counsel; (iv) discussing with the Internal Control Consultant and reviewing the internal control report issued by the Internal Control Consultant; and (v) conducting background searches and litigation searches to our Group, nothing has come to the [REDACTED] attention that would cause them to disagree with the Directors' views above.

Save as disclosed above, we had not been subject to any material disputes or claims for infringement upon third parties' intellectual property rights during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

Leased properties

As of the Latest Practicable Date, we had leased six properties with an aggregate gross floor area of 4,527.8 sq.m. in China, which were used as offices and research and development purposes. Among such leased properties, the lessors of one leased property failed to provide us with the building title certificates or other valid title documents for such leased properties or proof of lawful authorization from the owners for leasing such properties.

Pursuant to the applicable PRC laws and regulations, lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had only registered three of our leased properties. We did not register one of our leased properties because the lessor was in the process of obtaining the building ownership certificate, but he has the rights to lease the property to us according to Administrative

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Committee of Nanjing Economic and Technological Development Zone's confirmation, which is the competent authority to issue such confirmation as advised by our PRC Legal Advisor. We also did not register the other three leased properties although we have obtained the property ownership certificates, as the lessors were not willing to cooperate with the lease filing procedures. Our PRC Legal Advisor have advised us that the lack of registration of the lease agreements will not affect their validities under the PRC laws, and have also advised us that a maximum penalty of RMB10,000 for non-registration may be imposed for each lease. The estimated total maximum penalty is RMB40,000. During the Track Record Period and up to the Latest Practicable Date, we had not been ordered by any authorities to register any of the lease agreements. For details, please refer to the paragraph headed "Risk Factors — We may be liable for failure to register and file our lease agreements in accordance with applicable laws and regulations, which may subject us to administrative penalties." in this document.

In relation to the leased properties described above, our Directors confirm that no significant time or costs is expected to be required to identify or relocate our operations to comparable alternative properties, given the availability of comparable alternative properties in the market. Our Directors further confirm that should relocation be required, such relocation will not materially affect the operation and financial conditions of our Group.

As of the Latest Practicable Date, we did not have any single property carrying an amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provision) Notice, this document is exempted from the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance to include any interest in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

LICENSES, PERMITS AND APPROVALS

As of the Latest Practicable Date, we had obtained all material licenses and permits required for our business operations (which mainly consists of business licenses of our subsidiaries), and such business licenses had remained in full effect.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

We may become a party to legal, arbitral or administrative proceedings arising in the ordinary course of our business operation. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, none of the legal, arbitral or administrative proceedings to

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which we were a party, individually or in aggregate, would have a material and adverse effect on our business, financial conditions or results of operations, and we had not experienced any material legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material and adverse effect on our business, financial conditions and results of operations.

Non-compliance incidents

Social insurance and housing provident funds non-compliance

During the Track Record Period, two of our PRC subsidiaries had engaged third-party human resources agencies to pay social insurance and housing provident funds for two of our employees. The non-compliance incident took place mainly because such employees work in city where we did not have legal entity to pay social insurance premium or housing provident funds for them locally.

Pursuant to the agreements entered into between the third-party agents and our relevant PRC subsidiaries, the third-party agents have the obligation to pay social insurance and housing provident funds for our relevant employees. As of the Latest Practicable Date, none of the third-party agents being engaged had failed to pay or delayed in paying, any social insurance or housing provident funds for such employees. We ceased to engage third-party agents to make statutory contributions to the social insurance and housing provident funds for our employees since 2022. As such, the social insurance and housing provident funds non-compliance was fully rectified as of the Latest Practicable Date.

According to the PRC laws and regulations, (i) if we fail to pay the full amount of social insurance as required, the relevant PRC authorities may demand us to pay the outstanding social insurance within a stipulated deadline and we may be liable for a late payment fee that equals to 0.05% of the outstanding amount of social insurance for each day of the delay. If we fail to make such payments within the stipulated deadline, we may also be liable to a fine from one to three times of the amount of the outstanding amount of social insurance contributions; and (ii) in respect of outstanding housing provident fund, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed time period. If the payment is not made within such time limit, an application may be made to PRC courts for compulsory enforcement. Although the third-party agents we engaged with had paid the employees on behalf of our relevant subsidiaries, the relevant government authorities may determine that such agency arrangement does not satisfy with the requirements under the relevant PRC laws and regulations. Thus we may be subject to additional contributions, late payment fees and/or penalties imposed by the relevant PRC authorities for failing to discharge our obligations in relation to payment of social insurance and

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housing provident funds as an employer or be ordered to rectify. However, as advised by our PRC Legal Advisor, if we make the outstanding payment to the relevant authorities in time, the likelihood of us being subject to fines by the relevant government authorities is low.

Our Directors are of the view that such non-compliance would not have a material adverse effect on our business and results of operations, considering that: (i) as advised by our PRC Legal Advisor, paying social insurance premium or housing provident funds through third-party agencies does not harm the benefits of our employees; (ii) the total amount involved is insignificant and such non-compliance will not have any impact on our financial condition or business operation as a whole; (iii) based on our knowledge and the confirmations issued by the competent government authorities, we had not been subject to any administrative penalties in relation to the agency arrangements during the Track Record Period; (iv) as of the Latest Practicable Date, we had not received any notification from the relevant government authorities requiring us to pay any shortfalls or imposing any penalties with respect to social insurance and housing provident funds; and (v) we were neither aware of any employee complaints had filed against us nor we had involved in any labor disputes with our employees with respect to the payment of social insurance or housing provident funds through third-party agents during the Track Record Period and up to the Latest Practicable Date.

Labor dispatch non-compliance

According to the relevant PRC laws and regulations, an employer must control the use of dispatched workers, and the number of dispatched workers must not exceed 10% of the total number of its workers, where the total number of workers refers to the sum of the number of employees who have entered into labor contracts with the employer and the number of dispatched workers used by the employer.

During the Track Record Period, the number of dispatched staff of three of our PRC subsidiaries exceeded the threshold of 10% as required by the relevant PRC laws and regulations. Nevertheless, there is no substantial difference in the salary standards, social insurance and housing funds coverage between the dispatched workers and the employees with whom the relevant subsidiary entered into standard labor contracts. We reduced the number of dispatched workers of relevant subsidiary to below the 10% legal limit since 2021. As such, the labor dispatch non-compliance had been fully rectified as of the Latest Practicable Date.

As of the Latest Practicable Date, no administrative action had been initiated against, and no fine or penalty had been imposed on, us by the relevant government authorities with respect to this non-compliance incidence, nor had any order been received by us to rectify such non-compliance.

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Our PRC Legal Advisor is of the opinion that the risk of the relevant subsidiary being penalized for its labor dispatch non-compliance during the Track Record Period was remote, given that the issue had been rectified in a timely manner.

Having considered the above, our Directors believe, that the non-compliance in relation to labor dispatch is not a material non-compliance, that has or is expected to have a material financial or operational impact on our Company, or a systemic non-compliance whose recurring nature may reflect negatively on our Company's or our directors'/senior management's ability or tendency to operate in a compliant manner: (i) we had rectified such non-compliance by terminating the contract with the third-party agency and as advised by our PRC Legal Advisor, we are in compliance with the applicable laws and regulations relating to labor dispatch in all material respects in the PRC as of the Latest Practicable Date; (ii) we had not received any notice of rectification in relation to its labor dispatch activities from any governmental authorities; (iii) there was no record of administrative penalties against the subsidiary during the Track Record Period and up to the Latest Practicable Date; and (iv) as advised by our PRC Legal Advisor, the likelihood of that subsidiary being penalized due to its labor dispatch activities during the Track Record Period and up to the Latest Practicable Date was remote.

RISK MANAGEMENT AND INTERNAL CONTROL

We have established, and maintained, risk management and internal control systems consisting of policies and procedures which we consider appropriate for our business operations. We are dedicated to continually improving these systems. We adopted and implemented comprehensive risk management policies in various aspects of our business operations, such as information security and data privacy, financial reporting, compliance, and human resources. Our Board is responsible for the establishment and updating of our internal control systems, while our senior management monitors the daily implementation of the internal control procedures and measures with respect to each subsidiary and functional departments.

Information security and data privacy

We attach the greatest importance to data security and protection. We have adopted our standard protective measures including confidentiality management, access control and personal information deidentification to prevent unauthorized access, leakage, improper use or modification of, damage to or loss of data and personal information. We obtain appropriate consents from our customers to access data from them and their end users. We prioritize transparency and maintain comprehensive records of consent obtained, ensuring compliance with privacy laws and regulations.

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We have adopted both technical and organizational measures to protect data security and privacy. For technical measures, we deploy a data backup mechanism, which automatically distributes data to multiple data center environments for backup purposes. Different app key IDs distinguish and separate data from different clients and projects, ensuring that data within different business domains is stored in isolated environments. We have also adopted vulnerability management tools and network attack detection mechanisms. For organizational measures, we have published and implemented a comprehensive set of personal information protection policies and employed an account and permission management system to ensure data security. Specifically, we implement account authorization management for our staff, as well as a multi-factor authentication mechanism. We ensure that only authenticated users have access to their own accounts, and authorized staff only could access users' personal information when it is necessary for service provision or upon user request. These measures involve the implementation of multiple layers of protection to safeguard the integrity and confidentiality of data.

We have allocated substantial resources to establish a data compliance system to ensure full compliance with the PRC Personal Information Protection Law and other related regulations. Our data compliance team, algorithmic security committee and science and technology ethics review committee attend to our compliance policies in relation to data privacy and personal information protection. We have built up a comprehensive personal information management system and formulated a series of internal rules and policies to ensure data and personal information security throughout their life cycle.

Data sources

In the course of our business operation, we collect data from (i) sources with direct authorization to us (including content creators, enterprises, our employees and consumers and users of our solutions); (ii) limited amount of voice data purchased from third-party vendors in relation to the provision of our AIGC solutions. The data we purchased from third-party vendors during the Track Record Period had been provided to us pursuant to the relevant agreements with such vendors containing the legitimacy statement or contract clause. We hold the IP rights to the content creating resources of our Group. The IP rights of self-provided sources and content created by the users are owned by the respective users. We acknowledge the ownership of these IP rights through user agreements. To ensure the legality and proper authorization of the resources used, we establish user agreements requiring users to provide resources only if they have the necessary rights, permissions or licenses. We strictly adhere to these agreements, using user-provided content within the agreed service scope. Any utilization or distribution of user-created content beyond the necessary scope requires explicit permission from the users.

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In respect of training data, we obtain explicit permission through contracts with training data providers as required by applicable laws. These contracts ensure that the data resources used for training our AI models are legally authorized and comply with all applicable legal requirements.

Furthermore, we place significant emphasis on the protection of data acquired during our business operations and development of AI models. We have established data privacy policies to ensure that our collection of data is conducted in accordance with applicable laws and regulations and that the collection is for legitimate purposes. We believe it is crucial that customers and end users understand what information and data we collect and how we handle their information and data so that they can make fully-informed choices in deciding how such information and data is collected, used, stored and shared. To this end, we collect personal information and data from customers and end users only with their prior consent, and we offer them opt-out or opt-in options. We also require written confirmation from our third-party vendors that they have acquired data from legitimate source and that they have obtained the authorizations and rights to use such data for the purpose specified in the agreements. We apply our data protection requirements equally to all types of data, regardless of their sources.

We have entered into agreements with suppliers which allow us to legally use their resources. Before purchasing content created by third parties, clauses in the supplier agreement are reviewed in order to ensure the ownership and rights of use of the resources and authorization is obtained from the relevant right holder prior to using any third-party resources. The agreements are reviewed by our finance department, legal department, chief executive officer and chief operating officer. Once infringement risks are discovered, relevant information is delivered to the intellectual property department for investigation. The investigation result will be reported to our chief executive officer or chief operating officer for discussion regarding follow-up action.

Data collection

We collect data on an as-needed basis for different purposes and products under specific circumstances. These include instances where it is necessary to provide requested services, address customer inquiries or complaints, and ensure the overall security and integrity of our systems. We implement strict access controls and guidelines to ensure that data is accessed only by authorized personnel for legitimate purposes. Moreover, we access customers' data on the legal basis of their consent through privacy notice or for the performance of contracts on a customized AI development model.

For AI Software Solutions, we collect data, including but not limited to mobile phone numbers, for account registration and login purposes after obtaining users' explicit consent to the privacy policy through a pop-up window. Users voluntarily upload or input the data and voluntarily enable the necessary permissions. In the course of provision of our services, the type of

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data we collect includes user-uploaded content, such as text, images, voice, videos and user-created works. For example, when content creators utilize the AI writing feature, we collect and process the textual content they actively upload for the purpose of generating the written output. When users purchase membership services, we collect order information including customers' contact information to provide post-sales support.

For Smart Devices and Other Accessories, we collect consumers' data, including but not limited to mobile phone numbers and email addresses, for account registration after obtaining consent to the privacy policy through a pop-up window. In the course of provision of our services, the type of data we collect includes, but not limited to, voice data recorded for voice interaction function, usage data of audio content and location data. Besides, to monitor users' health status, we collect sports data, sleep data and device usage data through smart devices after obtaining explicit consent from the user through a separate pop-up window, and state our data collection in the privacy policy as well.

The ownership of personal information collected in AI Software Solutions and Smart Devices and Other Accessories belongs to the end users. For voice data purchased from data providers, we own all intellectual property rights to the data generated under the contracts.

Data processing

We process data with specific and reasonable purpose, and limit our data processing work to the minimum scope for achieving the purpose. We engage in data processing to enable us to provide customers with relevant products and service or to comply with relevant requirements under applicable laws and regulations.

We forbid our employee to use data for any other purpose irrelevant to such purpose. To achieve such goals, we have implemented our uniform data processing requirements across different business lines. For customer data processing, we adopt appropriate level of authorization for the staff who may contact end users' personal data, and regularly check the logs of visitors and access. We have also established approval mechanisms for the access and processing of data. For example only the security administrators can access archived data. Our database systems is isolated among different business lines.

We process customer data for (i) provision of real-time data processing services; and (ii) development of AI models:

- *(i) Provision of real-time data processing services:* We process data from our customers, which involve their end users' data containing personal information, in the course of providing real-time data processing services. The personal information we

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may collect includes: (i) contact information (such as name, mobile phone number, delivery address and profile photo); (ii) biometrics information; (iii) location information; (iv) search and browse records; and (v) conversation records.

- *(ii) Development of AI models:* We do not have ownership over the data from our customers and only process such data on an as-needed basis to fulfill the purposes of development of our AI models. We will only use users' data for training our models in the case of a customized AI development contract that is concluded between a specific user and us. We may retain end users' data for a limited period of time, as specified in the development contracts for AI models, unless a longer storage period is required by law. Typically, the development period for customized AI models is one year.

Data usage

During the Track Record Period and up to the Latest Practicable Date, we took significant measures to ensure the legitimacy of data usage in our business operations and the development of our AI models.

The contracts we entered into with suppliers, customers or users clearly outline our rights to access data for service provision, explicitly stating that the contractual counterparties, namely, suppliers, customers and users, have the responsibility to verify the legality of data sources. These contractual agreements serve as a basis to ensure compliance with data usage and protection.

Following the enforcement of the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》) in 2021, we have proactively sought legal grounds for processing personal information from suppliers, customers and users, in accordance with the provisions set forth in Article 13 of the law. This approach considers the specific processing circumstances, taking into account the different types of data and the purposes for which they are processed.

Unless consent is waived by the Personal Information Protection Law of the PRC, we obtain explicit consent from suppliers, customers, users and end-users through various means, including offline authorization contracts and online consent boxes.

By implementing these measures, we demonstrate commitment to maintaining a robust and compliant framework for data usage, ensuring that proper and explicit consent is obtained from all relevant parties involved in our business operations and AI model development.

We have adopted and implemented relevant internal policies and management system based on relevant rules and regulations in relation to data privacy and protection. We have applied various encryption technologies at software and hardware levels to ensure the secured transmission

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of data and prevent unauthorized users or personnel from accessing or using our data for unintended purposes. Data is categorized in accordance with its level of confidentiality, and de-identified and anonymized before it is processed by our personnel. Use and retrieval of data are subject to assessment and approval procedures based on data categorization. We have implemented comprehensive employee confidentiality policies, data usage approval procedures and data tracking mechanisms to ensure the security of our database. We have engaged an external legal counsel who is specialized in data compliance to review and evaluate our data security compliance status and no material non-compliance issues for data security had been identified during the Track Record Period. In addition, we have not engaged in any outbound cross-border data transfers.

We have adopted and implemented relevant policies and management system in relation to data privacy and protection, and the relevant contracts with third party data vendors include the representations and warranties made by relevant third parties in relation to compliance with relevant laws and regulations, and the relief and indemnification clauses as well as dispute resolution mechanism that we can resort to in the event of the breach by such data providers. To the best knowledge of the Group, during the Track Record Period and up to the Latest Practicable Date, there had been no material investigation, penalty or litigation relating to personality rights infringement or violation of data privacy and protection against the Group that would materially and adversely affect the Group's business. Based on the foregoing and the public search conducted by our PRC Legal Advisor and as confirmed by the Company, our PRC Legal Advisor advised that, during the Track Record Period and up to the Latest Practicable Date, there had been no material litigation or other proceedings arising from or in relation to any infringement of personality rights or data protection, and hence the Group had not violated relevant PRC laws and regulations in relation to personality rights and data protection that would impose material and adverse effect to our business.

We request our customers to confirm that they have acquired such data from legitimate sources and obtained the rights to use such data, with their end users' consent for the purposes specified in our agreements. We only use data for purposes explicitly authorized by our customers, such as identity verification, record-keeping and statistics, and do not use data for purposes without prior approval and consent. We also adopt technology measures, such as the use of firewalls, anti-malware, network security protection applications and various encryption technologies at both software and hardware levels, to protect data privacy and securely store such data. To minimize the risk of data loss or leakage, we conduct regular data backup and data recovery tests. If we find any server operating system with any security loopholes, we will upgrade the security protection to ensure the security of all server systems and application.

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Data storage

We store our data in the facilities of our cloud service providers in China and U.S. Our server systems are protected with heightened levels of security, and we conduct audit of our data security compliance status regularly by our in-house internal control team. We had not found material non-compliance issues for data security during the Track Record Period. We have formulated a cybersecurity contingency plan and conduct training and safety drills regularly in preparation for any emergency cybersecurity incidents. In the event that our security measures are compromised, we will report to the competent authority in accordance with relevant laws and regulations, and promptly inform impacted users. We follow a careful approach when it comes to retaining end users' data. The cache data such as user identities and usage records are automatically deleted within a stringent 24-hour timeframe. For comprehensive data exceeding one year and health and exercise records retained for over three years, we employ a robust archival system to store these data. Additionally, we will securely delete our customers' data within seven working days once they deregister their account or withdraw their consent for data processing. The determination of this reasonable period is based on applicable laws, regulatory requirements and industry best practices.

Data sharing

Solely for automotive pre-installed voice interaction solutions in cars, although we are the one to directly collect, store and process voice data from end users, automotive manufacturers own such data.

Therefore we do not own such data.

In addition, we may access personal information and data from users of our AIGC solutions, AI enterprise solutions and end users of Smart Devices and Other Accessories that operate on the Chinese version of the operating system for wearable devices developed by a third-party tech company, to the extent necessary for normal operations of our relevant AI solutions with relevant data stored in a secure cloud computing service platform.

We have implemented adequate technical and organizational security measures to prevent unauthorized usage of, as well as other potential risks relating to, the relevant data, to ensure our strict compliance with applicable data privacy and protection laws and regulations. To prevent any unauthenticated access to data stored in our solutions, we have adjusted our registration procedure and relevant webpage to ensure that any bugs in the authentication mechanism are fixed. For instance, an identity verification code is only valid for 10 minutes.

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Save as disclosed above, we typically do not have access to and do not seek to access, any personal information or data of users while providing other solutions.

Data Destruction

The Company had established internal policies regarding the deletion and destruction of data. We delete data according to such policies, when the data collected had been completely utilized for the purpose of collection, or when such data are retracted by individual users. In addition, we generally delete relevant human-machine interaction generated once a user deletes his own account. For information that is required to be maintained in accordance with relevant laws and regulations, we do not delete such information unless permitted by relevant laws and regulations, but we generally do not use such data in our operations.

Compliance and intellectual property risk management

In order to effectively manage the compliance of our business operations with the relevant rules and regulations and legal risk exposures, we have adopted strict internal procedures to ensure the compliance of our business operations with the applicable rules and regulations, as well as the protection of our intellectual property rights. In accordance with these procedures, our in-house legal department performs the basic function of reviewing and updating the form of contracts we enter into with our customers, partners and suppliers. Our legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities, within the prescribed regulatory timelines.

Our intellectual property department is responsible for preparing documents for applying intellectual property rights of contents created by our Company. Application for intellectual property rights is reviewed and approved by our research and development director, intellectual property manager, chief executive officer and chief operating officer. Third-party intellectual property service agency will submit the relevant application documents to the intellectual property regulatory authorities to ensure that our Group uses relevant intellectual property rights with authorization. A list of intellectual properties is maintained and updated by our intellectual property department to monitor the expiry dates of the intellectual properties. When the intellectual property rights need to be renewed, the application is reviewed and approved by our

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finance department, chief executive officer and chief operating officer, and our intellectual property department will then execute the renewal procedure. Web searches are conducted to prevent unauthorized use of intellectual properties within our Group.

We continuously improve our internal policies according to changes in laws, regulations and industry standards, and update internal templates for legal documents. We undertake compliance management over various aspects of our operations and employee activities. We have also established an accountability system in respect of employees' violations of laws, regulations and internal policies. In addition, we continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

We have an employee code of conducts in place, which contains internal rules and guidelines regarding basic working rules, work ethics, confidentiality, negligence, anti-bribery and anti-corruption. We provide our employees with regular training and resources to explain the guidelines contained in the employee code of conducts.

Financial reporting risk management

We have a set of policies in connection with our financial reporting risk management, such as financial system management, assets protection management, budget management, and operation analysis management. We also have procedures in place to implement such policies, which our financial department follows when reviewing our management accounts. In addition, we provide regular training to our financial department staff to ensure that they understand our accounting policies and procedures.

Internal control risk management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. To ensure the effectiveness of our internal control, our business department works closely with our operational departments (which are, legal and compliance, finance, and procurement department). Our internal control team would also conduct regular reviews to monitor the status and effectiveness of our risk management procedures and policies, to ensure the effectiveness and adequacy of our procedures and policies in place.

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AWARDS AND RECOGNITION

The table below sets forth an indicative list of some of the awards and recognition we had received as of the Latest Practicable Date.

Award/Recognition	Year	Awarding body
Lingxuan Award (Excellence in Automobile Software category) (鈴軒獎 (車用軟件優異獎))	2022	China Auto Supply Chain Summit (中國汽車供應鏈峰會)
2022 China Unicorn Enterprise (2022中國獨角獸企業)	2022	Great Wall Enterprise Institute (長城戰略諮詢)
The sixth batch of 2021 "Specialized and New" SME of Beijing (北京2021年度第六批「專精特新」中小企業)	2022	Beijing Municipal Bureau of Economy and Information Technology (北京市經濟和信息化局)
Wu Wenjun Artificial Intelligence Science and Technology Progress Award (Enterprise Technology Innovation Engineering Projects) (吳文俊人工智能科技進步獎(企業技術創新工程項目))	2020	Chinese Association for Artificial Intelligence (中國人工智能學會)
Vitality List of 50 Emerging Enterprises with Science and Technology Innovation Potential (2020科創潛力新興企業活力榜50)	2020	EqualOcean Intelligence (億歐智庫)
2020 Best Smart Watch Award (2020年度最佳智能手錶獎)	2020	Android Central.com
Top 60 of Best Growing New Infrastructure Start-ups (最具成長性新基建創業公司TOP60)	2020	36Kr (36氪)
Best Technology Trendy Product Award (科技潮物獎)	2020	CYZone (創業邦)

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Award/Recognition	Year	Awarding body
AI Breakthrough Award — Best Natural Language (人工智能突破獎-最佳自然語言)	2019	AI Breakthroughs
2017 Best 30 Global AI Start-ups (2017年度全球三十大AI創業公司)	2018	Jiqizhixin/Synced China (機器之心)
2018 AI 100 List (2018年度AI 100榜單)	2018	CB Insights
Leading AI Revolutionary Enterprise (領先AI革命公司)	2017	Fortune Magazine (財富雜誌)
Beijing Zhongguancun Frontier Technology Enterprise (北京中關村前沿技術企業)	2017	Zhongguancun Science Park Management Committee (中關村科技園區管理委員會)