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*You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants’ Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with IFRS.*

*The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed “Risk Factors” and “Business.”*

*For the purpose of this section, unless the context otherwise requires, references to 2021, 2022 and 2023 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.*

## OVERVIEW

We provide AI software and AI software embedded hardware solutions with generative AI and voice interaction technologies at the core of our business, including AIGC solutions, AI enterprise solutions, smart devices and accessories. According to the CIC Report, we ranked third in the field of AI voice technologies in China in terms of revenue recognized in 2022. Furthermore, 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. We generated the largest amount of revenue from AIGC solutions among other market players in China in 2022.

Since our establishment, we have accumulated AI solutions and expertise in the field of NLP and ASR, which enable 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 and AI smart treadmill — Mobvoi Home Treadmill Incline, 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

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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, we are one of the first market players in commercializing AIGC technologies in the industry according to CIC. 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 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.

As of the Latest Practicable Date, our AIGC solutions has successfully attracted approximately 840,000 cumulative paying users and achieved more than one million payments since its launch. Meanwhile, we had pre-installed voice assistants in over two million vehicles, served over 100 enterprises and cumulative sales of over one million pieces of our smart devices since 2020 and up to the Latest Practicable Date. Our revenue grew rapidly from RMB397.9 million for the year ended December 31, 2021 to RMB500.2 million for the year ended December 31, 2022, and further to RMB507.1 million for the year ended December 31, 2023. We recorded an adjusted net loss (non-IFRS measure) of RMB73.4 million for the year ended December 31, 2021 while we recorded adjusted net profits (non-IFRS measure) of RMB108.9 million and RMB17.5 million for the year ended December 31, 2022 and 2023, respectively. For details, please refer to the paragraph headed “— Non-IFRS measure” in this section.

### BASIS OF PREPARATION

The historical financial information has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”), which collective term includes all applicable individual international Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

The preparation of our consolidated financial information in conformity with IFRS requires the use of certain critical judgments, estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to our consolidated financial information are disclosed in note 3 to the Accountants’ Report in Appendix I to this document.

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### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations have been and are expected to be continuously affected by a number of key factors, including the followings:

- the overall economic growth in China and around the globe;
- the development of AI technologies;
- the market growth and competitive landscape of the AI industry; and
- the governmental regulations, policies, initiatives and incentives affecting the AI industry in China.

In addition to the general factors mentioned above, we believe that our results of operations are more directly affected by the following specific factors:

#### **Our ability to attract content creators and enterprises for our AI Software Solutions**

Our ability to maintain long-term revenue growth and improve profitability largely depends on our ability to attract content creators and enterprises. With our AI CoPilot strategy, we have been persistently improving and enriching our solution matrix to meet the diverse and evolving needs of content creators and enterprises.

During the Track Record Period, paying users for our AIGC solutions continually increased. As of the Latest Practicable Date, we had attracted approximately 840,000 cumulative paying users since the launch of our AIGC solutions. As of the same date, we had attracted over nine million of cumulative registered users since 2020. We believe that our ability in providing content creators with AIGC solutions enabled us to attract content creators over the globe.

Leveraging our strong software-hardware integration capability and voice interaction technologies, we are able to customize AI enterprise solutions for enterprises. Since 2020, we have served over one hundred enterprises from various industries, including automotive, finance, TMT and others such as healthcare and retail industries. We believe that our ability in developing and expanding the application scenarios of our AI enterprise solutions is crucial for attracting new enterprises around the globe in achieving revenue growth.

We believe that our ability to attract new content creators and enterprises will highly depend on our ability to continue to improve, enhance and expand the functionality, performance, features and/or application scenarios of our AIGC solutions and AI enterprise solutions. We expect that our

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strategic focus on innovations will further reinforce our competitive edge and enable us to capture additional market shares, which in turn enabling us to further increase our revenue and strengthen our financial performance.

### **Our ability to infuse and roll out Smart Devices and Other Accessories with the latest technologies**

Leveraging our strong software-hardware integration capabilities to integrate our AI technologies and AI modules into smart hardware devices, we have successfully commercialized through our Smart Devices and Other Accessories. We have launched various Smart Devices and Other Accessories, including AI smart watch — TicWatch series and AI smart treadmill — Mobvoi Home Treadmill Incline, offering consumers with voice-based human-machine interaction and have gradually applied advanced AI technology in the three major human-machine interaction scenarios, namely, “wearable, automotive and smart homes.” Benefiting from our long-term strategic cooperation on multiple projects with international leading technology companies, such as Semiconductor Corporation A, our technical level and solution capabilities have been effectively improved. We are also capable of carrying out constant optimization and efficient iteration based on the human-machine interaction, empowering us to meet our customers’ needs. For details, please refer to the paragraph headed “Business — Our strategic collaboration” in this document.

During the Track Record Period, we have launched various AI-empowered flagship smart devices including our new TicWatch flagship product in late May 2023. For details, please refer to the paragraph headed “Business — Business Sustainability — Our path to sustainable profit — Expanding our business scale by continuous development in all segments — Smart Devices and Other Accessories” in this document.

### **Our ability to continuously develop our model and technologies and innovate our offerings**

In the past years, we have invested significant resources in our research and development activities, in particular, model training, to constantly develop and upgrade our technologies and solutions.

We are a market player in China that focuses on large language model with multi-modal generative capability. Since 2020, we have been exploring large language model trainings in “UCLAI” and “Sequence Monkey” and we will continue to extend our offerings and accelerate the iteration of our large language model in order to cater for the needs of content creators.

Leveraging our voice interaction capability and our large language model with multi-modal generative capability, “Sequence Monkey”, we provide AI CoPilot through various software and hardware solutions to content creators, enterprises and consumers around the globe. We believe

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that our continuous investments in technological advancements have enabled us to develop innovative AIGC platforms and further strengthen our competitive advantage and our market position in the industry. For the years ended December 31, 2021, 2022 and 2023, we incurred research and development expenses amounted to RMB91.5 million, RMB118.7 million and RMB154.7 million, respectively, representing 23.0%, 23.7% and 30.5% of our total revenue during the same years, respectively.

### **Our ability to manage our relationships with customers, distributors, suppliers and strategic collaboration partners to identify new business opportunities**

Our customers primarily consist of end users, online and offline distributors and enterprises, whereas our suppliers primarily consist of suppliers of hardware components and raw materials, contract manufacturers, cloud services and servers providers, data sources suppliers and warehouse and logistic services providers. During the Track Record Period, we depended on effective sales networks to deliver smart devices to consumers by engaging online and offline distributors across the globe. For details, please refer to the paragraphs headed “Business — Our customers,” “Business — Our suppliers” and “Business — Sales and distribution network — Distribution model” in this document. Our competitiveness and growth depends significantly on our ability to manage our relationships with core customers and suppliers. With the aid of our strong software-hardware integrated capability, voice interaction technologies and engineering capability, we have expanded our application scenarios to enterprise verticals. Leveraging our experiences accumulated from serving enterprises across multiple industry verticals over the years, we have achieved diverse coverage in the enterprise market. As of the Latest Practicable Date, we had served over 100 enterprises from various industries, including automotive, finance, TMT and others such as healthcare and retail industries.

Capitalizing on our industry expertise, we will continue to cultivate and expand our presence in the existing and new industry verticals and we intend to serve and collaborate with more core customers and suppliers while continuously focusing on managing our relationships with existing ones.

### **Our ability to enhance operational efficiency**

We believe that an effective cost management is critical for improving our profitability. Leveraging our experiences accumulated over the years together with our capabilities in expanding the application scenario of our solutions, we can expand our customer base more efficiently benefiting from the economies of scale and the spread of overhead costs as our business expands. In addition, we have effective sales networks covering online and offline channels across the globe. Our selling and marketing expenses for the years ended December 31, 2021, 2022 and 2023 amounted to RMB105.9 million, RMB97.1 million and RMB150.7 million, respectively,

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representing 26.6%, 19.4% and 29.7% of our revenue for the same years, respectively. 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.

### **MATERIAL ACCOUNTING POLICY INFORMATION AND ESTIMATES**

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements with IFRS. These significant accounting policies are set forth in note 2 to the Accountants' Report in Appendix I to this document, which are important for an understanding of our financial conditions and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 3 to the Accountants' Report in Appendix I to this document. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There had not been any material deviation from our management's estimates or assumptions and actual results, and we had not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements.

#### **Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by our Group. Our Group controls an entity when it is exposed, or has rights, to variable returns from our involvement with the entity and has the ability to affect those returns through our power over the entity. When assessing whether our Group has power, only substantive rights (held by our Group and other parties) are considered.

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### Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of our Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (please refer to note 2(j) to the Accountants' Report set out in Appendix I to this document).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### Inventories and other contract costs

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

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The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

A right to recover returned goods is recognized for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in note 2(u)(i)(b) to the Accountants’ Report set out in Appendix I to this document.

Our Group takes advantage of practical expedient in paragraph 94 of IFRS 15 and recognize the incremental costs of obtaining a contract as an expense if the amortization of the asset is less than one year.

### Share capital

Ordinary shares are classified as equity, except for those with redemption features, which are classified as contingently redeemable ordinary shares. For details on accounting policy on contingently redeemable preferred shares and ordinary shares, please refer to note 2(aa) to the Accountants’ Report set out in Appendix I to this document.

### Share-based payments

The fair value of share options granted to employees is recognized as an employee cost with corresponding increase in share-based payment reserve. The fair value is measured at grant date using the Binomial option pricing model (“**Binomial Model**”), taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of



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the Company’s shares. The equity amount is recognized in the share-based payment reserve until either the option is exercised (when it is included in the amount recognized in share capital and share premium for the shares issued) or the option expires (when it is released directly to retained profits).

### **Revenue Recognition**

#### *Revenue from contracts with customers*

Sales of our Group’s electronics products are recognized as follows:

Revenue is recognized when control over a product or service is transferred to the customer at the amount of promised consideration to which our Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

#### *(a) AI software solutions*

AI software solutions include AIGC solutions and AI enterprise solutions.

#### *AIGC solutions*

Our Group uses AI technologies to assist users to generate content, such as voice over clips, news articles, social media posts and marketing materials. The revenue of AIGC solutions is recognized at a point in time when the customers accept the deliverables, or is recognized over time as our Group provides continuing services to the users during the member subscription period. The proceeds from member subscription fees are initially recorded as contract liabilities and are recognized as revenue ratably over the member subscription period.

#### *AI enterprise solutions*

Our Group provides AI enterprise solutions to customers, including the design of AI solution, delivery of software products, software licensing and integration of products and software. The revenue of AI enterprise solutions is recognized at a point of time when the customers accept the deliverables. A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue.

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*(b) Sale of Smart Devices and Other Accessories*

Revenue is recognized when the customer takes possession of and accepts the products. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers. Our Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less. Our Group offers warranties for its products for 12 to 24 months from the date of sale. A related provision is recognized in accordance with the policy set out in note 2(t)(i) to the Accountants' Report set out in Appendix I to this document.

Our Group typically offers customers of Smart Devices and Other Accessories that are not made-to-order rights of return for a period of 7 or 30 days upon customer acceptance. It also offers retrospective volume rebates to certain major customers of electronic products when their purchases reach an agreed threshold. Such rights of return and volume rebates give rise to variable consideration. Our Group uses an expected value approach to estimate variable consideration based on our Group's current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of smart devices, our Group recognizes revenue after taking into account adjustment to transaction price arising from returns and rebates as mentioned above. A right to recover returned goods (included in finished goods of inventories, for details, please refer to note 17 to the Accountants' Report set out in Appendix I to this document) and corresponding adjustment to cost of sales are also recognized for the right to recover products from customers. This right to recover returned goods is measured at the former carrying amount of the inventory less any expected costs to recover goods (including potential decreases in the value of the returned goods).

If the products are a partial fulfillment of a contract covering other goods and/or services, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis except when a variable consideration is allocated to a specific performance obligation in the contract. Generally, our Group establishes standalone selling prices with reference to the observable prices of products or services sold separately in comparable circumstances to similar customers.

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*(ii) Revenue from other sources and other income*

*(a) Interest income*

Interest income is recognized as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortized cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortized cost (which is, gross carrying amount net of loss allowance) of the asset (for details, please refer to note 2(j)(i) to the Accountants' Report set out in Appendix I to this document).

*(b) Government grants*

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that our Group will comply with the conditions attaching to them. Grants that compensate our Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate our Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss on a systematic basis over the useful life of the asset.

### **Intangible Assets**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and our Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (please refer to note 2(w) to the Accountants' Report in Appendix I to this document). Capitalized development costs are stated at cost less accumulated amortization and impairment losses (please refer to note 2(j) to the Accountants' Report in Appendix I to this document). Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by our Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (please refer to note 2(j) to the Accountants' Report in Appendix I to this document). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

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Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Software	1–5 years
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Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

### **Leased Assets**

At inception of a contract, our Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### *As a lessee*

Where the contract contains lease component(s) and non-lease component(s), our Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, our Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When our Group enters into a lease in respect of a low-value asset, our Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate.

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After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (please refer to notes 2(g) and 2(j)(ii) to the Accountants’ Report in Appendix I to this document).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortized cost. Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in our Group’s estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether our Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract (“**lease modification**”) that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 “Leases”. In such cases, our Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognized the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

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In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

### **Impairment of assets**

Our Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses (“ECLs”), which is calculated using a provision matrix. As our Group’s historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between our Group’s different customer bases.

Our Group recognizes a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortized cost (including cash and cash equivalents, trade receivables and other receivables which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

The provision of ECLs is sensitive to changes in estimates. The information about the ECLs is disclosed in note 33(a) of the Accountant’s Report in Appendix I to this document.

According to CIC, our industry consultant, the ECL rates as of the end of each period comprising the Track Record Period were in line with the industry overall trend.

Other financial assets measured at fair value are not subject to the ECL assessment.

### ***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (which is, the difference between the cash flows due to our Group in accordance with the contract and the cash flows that our Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to our Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that our Group expects to receive if the loan is drawn down.

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The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

### **Trade receivables**

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortized cost, using the effective interest method and including an allowance for credit losses (please refer to note 2(j)(i) to the Accountants' Report in Appendix I to this document). Please also refer to notes 18 and 34(a) to the Accountants' Report in Appendix I to this document for further information about our Group's accounting for trade receivables and description of our Group's impairment policies.

### **Discontinued operations**

A discontinued operation is a component of our Group's business, the operations and cash flows of which can be clearly distinguished from the rest of our Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

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Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned. Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss and other comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

### **Contingently redeemable preferred shares and ordinary shares**

Our Company issued several series of redeemable preferred shares to investors. The instrument holders have the right to require our Company to redeem some or all of the preferred shares held by the holders upon certain redemption events, which are not all within the control of our Company. Our Company also became obliged to buy back our ordinary shares upon the occurrence of certain specified contingent events which are not within our control in 2020. Our Company recognized the financial liabilities for our obligations to buy back our ordinary shares and preferred shares upon the occurrence of contingent events.

The financial liabilities arising from the redemption obligations are measured at the present values of the redemption amounts. Any changes in the carrying amounts of the contingently redeemable preferred shares and ordinary shares for redemption obligations, except for those changes arising from transactions between our Company and our shareholders in their capacity as owners, were recognized in profit or loss as “changes in the carrying amount of contingently redeemable preferred shares and ordinary shares”.

The contingently redeemable preferred shares and ordinary shares were classified as current liabilities as some of the redemption events could occur anytime. Upon the closing of a qualified [REDACTED] of our Company, the redemption obligation related to the financial liabilities will expire and the redeemable preferred shares will be automatically converted into ordinary shares of our Company. The financial liabilities will be reclassified from liabilities to equity with no gain or loss.

### **IMPACT OF THE COVID-19 PANDEMIC**

The COVID-19 pandemic has curtailed the movement of people, goods and services, causing an impact on general economic conditions, including but not limited to the temporary closures of many businesses and reduced consumer spending.



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During the COVID-19 pandemic, our business operations had been affected to a certain extent. Our shipment was affected as a result of (i) the decrease in consumers’ spending as a whole; and (ii) interrupted delivery schedules for some of our Smart Devices and Other Accessories. Normally, it takes on average two and eight days, respectively, from the receipt of customer orders to the delivery of our Smart Devices and Other Accessories domestically and internationally. With the spread of COVID-19 during the Track Record Period, on average 10 and 49 days, respectively, were needed before we were able to deliver our products domestically and internationally. At the same time, due to transportation disruptions and pandemic prevention policies, the solution developing and launching schedules with our business partners were delayed. For example, the revenue attributable to our Smart Devices and Other Accessories dropped from RMB338.4 million for the year ended December 31, 2021 to RMB197.3 million for the year ended December 31, 2022 due to a delay in launching our new flagship products. Regarding our business of AI enterprise solutions business, the implementation of part of our scheduled activities and the provision of technical support were suspended. Both our delivery schedule for smart devices and other accessories and deployment of AI enterprise solutions returned to normal in January 2023 following the global economic recovery. Apart from the above-mentioned impacts, our scheduled business plans, on-site meetings and commercial cooperations were also temporarily affected.

As of the Latest Practicable Date, however, COVID-19 did not impose any material adverse impact on our research and development, daily operation, supply chain and regulatory affairs. We have promptly taken various measures to mitigate the impact of the COVID-19 pandemic on our business operations, such as (i) organizing our employees to work remotely and closely monitoring their health and wellness status; (ii) providing necessities to our employees to accommodate their living needs; (iii) designating separate venues for quarantine purposes; and (iv) conducting routine sanitization and requiring regular negative COVID-19 PCR test result to prevent the resurgence. Given that the PRC government has substantially lifted its COVID-19 prevention and control policies since December 2022, our Directors are of the view that it is unlikely that the COVID-19 pandemic will have a material adverse impact on our business going forward. 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.

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### DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets out a summary of our results of operations for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Continuing operations</b>			
Revenue . . . . .	397,914	500,194	507,060
Cost of sales . . . . .	(248,718)	(164,043)	(180,981)
<b>Gross Profit</b> . . . . .	149,196	336,151	326,079
Research and development expenses . . . . .	(91,505)	(118,663)	(154,746)
Selling and marketing expenses . . . . .	(105,938)	(97,120)	(150,711)
Administrative expenses . . . . .	(48,701)	(55,169)	(88,987)
Other incomes and losses, net . . . . .	35,650	7,584	24,708
Impairment losses recognized on trade receivables . . . . .	(461)	(1,195)	(3,885)
<b>(Loss)/profit from operations</b> . . . . .	(61,759)	71,588	(47,542)
Finance costs . . . . .	(1,008)	(1,003)	(253)
Share of losses of a joint venture . . . . .	(18,567)	(9,362)	—
Gain on disposal of interest in a joint venture/a subsidiary . . .	—	28,999	773
Changes in fair value of financial assets . . . . .	—	1,179	—
Changes in the carrying amount of contingently redeemable preferred shares and ordinary shares . . . . .	(98,893)	(775,084)	(753,785)
<b>Loss before taxation from continuing operations.</b> . . . . .	(180,227)	(683,683)	(800,807)
Income tax . . . . .	(1,753)	(1,296)	(1,795)
Loss for the year from continuing operations . . . . .	(181,980)	(684,979)	(802,602)
<b>Discontinued operations</b>			
(Loss)/profit for the year from discontinued operations . . . . .	(94,316)	15,174	—
<b>Loss for the year</b> . . . . .	(276,296)	(669,805)	(802,602)
<b>Other comprehensive income for the year (after tax):</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements . . .	35,877	(195,647)	(38,803)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Changes in the fair value of financial assets measured at fair value through other comprehensive income . . . . .	—	—	1,783
Exchange differences on translation of financial statements of overseas subsidiaries . . . . .	35,272	(120,100)	(27,821)
<b>Other comprehensive income for the year</b> . . . . .	71,149	(315,747)	(64,841)
<b>Total comprehensive income for the year attributable to equity shareholders of the Company</b> . . . . .	(205,147)	(985,552)	(867,443)

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### Non-IFRS measure

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net (loss)/profit (non-IFRS measure) as additional financial measure, which are not required by, or presented in accordance with, IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company and provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the adjusted net (loss)/profit (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial conditions as reported under IFRS.

We define “adjusted net (loss)/profit” (non-IFRS measure) as loss for the year from continuing operations excluding changes in the carrying amount of contingently redeemable preferred shares and ordinary shares, share-based compensation and [REDACTED] expenses. We have made adjustments to the following items consistently during the Track Record Period:

- Changes in the carrying amount of contingently redeemable preferred shares and ordinary shares, which are affected primarily by the changes in the redemption price of the preferred shares and ordinary shares. We do not expect to record such changes as our contingently redeemable preferred shares and ordinary shares will be automatically converted into equity upon completion of the [REDACTED];
- Share-based compensation, which represents the non-cash employee benefit expenses incurred. It relates to the share rewards we offered to our employees under the [REDACTED] Share Option Scheme, which is a non-cash expense; and
- [REDACTED] expenses relating to the [REDACTED].

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The following table sets out a reconciliation of our non-IFRS financial measure for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Loss for the year from continuing operations . . . . .</b>	<b>(181,980)</b>	<b>(684,979)</b>	<b>(802,602)</b>
Adjusted for:			
Changes in the carrying amount of contingently redeemable			
preferred shares and ordinary shares . . . . .	98,893	775,084	753,785
Share-based compensation . . . . .	9,648	17,322	41,698
<b>[REDACTED] expenses . . . . .</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>
Adjusted net (loss)/profit (non-IFRS measure) . . . . .	<u>(73,439)</u>	<u>108,891</u>	<u>17,535</u>

Primarily attributable to our historical investment in research and development of our technologies and our talents as well as our selling and marketing expenses incurred, we recorded an adjusted net loss (non-IFRS measure) in 2021. Due to the increase in our revenue and the overall gross profit margin, we recorded adjusted net profits (non-IFRS measure) in 2022 and 2023.

### Revenue

The following table sets out a breakdown of our revenue by segments for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
AI Software Solutions . . . . .	59,519	15.0	302,888	60.6	343,247	67.7
— AIGC solutions . . . . .	6,822	1.7	39,857	8.0	117,605	23.2
— AI enterprise solutions . . . . .	52,697	13.3	263,031	52.6	225,642	44.5
Smart Devices and Other Accessories . . . . .	338,395	85.0	197,306	39.4	163,813	32.3
<b>Total . . . . .</b>	<b><u>397,914</u></b>	<b><u>100.0</u></b>	<b><u>500,194</u></b>	<b><u>100.0</u></b>	<b><u>507,060</u></b>	<b><u>100.0</u></b>

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Our revenue grew rapidly from RMB397.9 million in 2021 to RMB500.2 million in 2022. Such increase was generally in line with the growth in AI Software Solutions contributed by (i) the increase in revenue from AIGC solutions due to the increase in the number of paying users for our AIGC solutions; and (ii) the increase in revenue from AI enterprise solutions primarily due to the IP rights arrangements with Automotive Sub A for sharing certain copyrights, patents and know-how matters in relation to backend technology for automotive speech dialogue system, which was partially offset by the decrease in revenue from Smart Devices and Other Accessories affected by the delay in launching of new flagship products. The delay in the launch of new flagship products was primarily caused by the pandemic prevention policies under which transport of the testing machines used for the co-development projects among us, Semiconductor Corporation A and Technology Corporation A in relation to the new flagship products was hindered. In addition, the travel restrictions had restricted our physical interactions with Semiconductor Corporation A’s experts and Technology Corporation A’s technical staff. The growth in our revenue from RMB500.2 million in 2022 to RMB507.1 million in 2023 was relatively modest, primarily due to the increase in revenue from our AIGC solutions due to an increase in the number of paying users of our AIGC solutions, partially offset by (i) the decrease in revenue from AI enterprise solutions primarily due to a decrease in revenue from the IP rights arrangements with Automotive Sub A; and (ii) the decrease in revenue from our Smart Devices and Other Accessories considering most of the products sold during the first half of 2023 were old models, which entered into the later stage of product life cycle.

### *AI Software Solutions — AIGC solutions*

As one of the market players in development and commercialization of AIGC in Asia, we have accumulated profound cutting-edge large language model technologies which enabled us to stay ahead of the industry. As of the Latest Practicable Date, we had built our AIGC CoPilot solution matrix and created content creation platforms which include, “Moyin Workshop” — our AI voiceover assistant, “Mozhuan Writing” — our AI writing assistant and “Weta365” — our AI avatar. For details, please refer to the paragraph headed “Business — Our solutions — AI Software Solutions — AIGC solutions” in this document.

In 2021, 2022 and 2023, revenue from our AIGC solutions amounted to RMB6.8 million, RMB39.9 million and RMB117.6 million, respectively, representing 1.7%, 8.0% and 23.2% of our revenue in the same years, representing an increase of 4.9 times from 2021 to 2022 and 2.0 times from 2022 to 2023, primarily attributable to the increase in the number of paying users and enterprise customers.

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### *AI Software Solutions — AI enterprise solutions*

We offer innovative AI-based solutions primarily to enterprises, aiming at solving their pain points and maximizing value for them. 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. For details, please refer to the paragraph headed “Business — Our solutions — AI Software Solutions — AI enterprise solutions” in this document.

In 2021, 2022 and 2023, revenue from our AI enterprise solutions amounted to RMB52.7 million, RMB263.0 million and RMB225.6 million, respectively, representing 13.2%, 52.6% and 44.5% of our revenue in the same years, primarily attributable to the increase in revenue from IP rights arrangements, increase in the number of enterprises we served and engagements in new projects with existing enterprises, including the IP rights arrangements with Automotive Sub A. Despite a decrease in revenue from IP rights arrangements with Automotive Sub A between 2022 and 2023, we observed an increase in the number of enterprise customers.

### *Smart Devices and Other Accessories*

Ever since our inception in 2012, we have been committed to enhancing human-machine interaction. To this end, we have sedulously strived to infuse our proprietary AI-based, end-to-end language technologies into our self-developed solutions. Leveraging our strong software-hardware integration capabilities, we have successfully carried out deployment in our Smart Devices and Other Accessories. As of the Latest Practicable Date, we had marketed and sold a various Smart Devices and Other Accessories, primarily comprising consumer smart devices.

In 2021, 2022 and 2023, revenue from our Smart Devices and Other Accessories amounted to RMB338.4 million, RMB197.3 million and RMB163.8 million respectively, representing 85.0%, 39.4% and 32.3% of our total revenue in the same years. Our revenue from Smart Devices and Other Accessories was largely affected by the progress of development and launching of products.

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### Cost of sales

Our cost of sales primarily consists of cost of inventories, fulfillment related expenses and staff costs. The following table sets forth our cost of sales by nature for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%
Cost of inventories . . . . .	184,821	74.3	121,567	74.1	121,258	67.0
Fulfillment related expenses . . . . .	36,787	14.8	21,608	13.2	15,563	8.6
Staff costs . . . . .	10,499	4.2	4,297	2.6	11,643	6.4
Impairment losses and obsolete inventories . . . . .	11,219	4.5	9,630	5.8	21,974	12.1
Technical service fees . . . . .	4,993	2.0	6,854	4.2	10,476	5.8
Others <sup>(note)</sup> . . . . .	399	0.2	87	0.1	67	0.0
<b>Total . . . . .</b>	<b>248,718</b>	<b>100.0</b>	<b>164,043</b>	<b>100.0</b>	<b>180,981</b>	<b>100.0</b>

*Note:* Others mainly include outsourcing development fee and office expenses.

In 2021, 2022 and 2023, our cost of sales amounted to RMB248.7 million, RMB164.0 million and RMB181.0 million, respectively, primarily due to the fluctuation in cost of inventories and fulfillment related expenses which is generally in line with the fluctuation in our revenue from Smart Devices and Other Accessories and AI enterprise solutions. Our impairment losses and obsolete inventories remained relatively stable for the years ended December 31, 2022. It increased by 128.2% from RMB9.6 million for the year ended December 31, 2022 to RMB22.0 million for the year ended December 31, 2023, primarily due to (i) the longer time interval between the launch of new flagship products which resulted in a decline in the value of older models at the later stages of their life cycle; and (ii) the introduction of new products in May 2023 which further reduced the competitiveness of older models. Our staff costs increased by 1.7 times from RMB4.3 million in 2022 to RMB11.6 million in 2023, primarily attributable to the staff costs in connection with our AI enterprise solutions.

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### Gross profit and gross profit margin

The following table sets forth our gross profit and gross profit margin, by segments for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>Gross Profit</i>		<i>Gross Profit</i>		<i>Gross Profit</i>	
	<i>Gross Profit</i>	<i>Margin</i>	<i>Gross Profit</i>	<i>Margin</i>	<i>Gross Profit</i>	<i>Margin</i>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
AI Software Solutions . . . . .	37,351	62.8	284,148	93.8	290,901	84.7
— AIGC solutions . . . . .	4,695	68.8	35,094	88.0	108,384	92.2
— AI enterprise solutions . . . . .	32,656	62.0	249,054	94.7	182,517	80.9
Smart Devices and Other Accessories . . . . .	111,845	33.1	52,003	26.4	35,178	21.5
<b>Total . . . . .</b>	<b>149,196</b>	<b>37.5</b>	<b>336,151</b>	<b>67.2</b>	<b>326,079</b>	<b>64.3</b>

In 2021, 2022 and 2023, our gross profit amounted to RMB149.2 million, RMB336.2 million and RMB326.1 million, corresponding to gross profit margin of 37.5%, 67.2% and 64.3%, respectively. For details, please refer to the paragraph headed “— Year-to-year comparison of results of operations” in this section.

### Research and development expenses

Our research and development expenses primarily consist of (i) staff expenses associated with our research and development staff; (ii) technical services fee in relation to data and cloud services; and (iii) depreciation and amortization expenses. For the years ended December 31, 2021, 2022 and 2023, our research and development expenses amounted to RMB91.5 million, RMB118.7 million and RMB154.7 million, respectively, in (i) developing and upgrading our content creator platforms and adopting different languages in our AIGC solutions; (ii) iterating and optimizing our AI enterprise solutions, including upgrade of automotive AI assistant and upgrade of bank intelligent customer services with dialogue; and (iii) equipping our Smart Devices and Other Accessories with AI CoPilot technologies and developing our human-machine interaction model.



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The following table sets out a breakdown of the major components of our research and development expenses for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff expenses . . . . .	76,337	83.4	100,217	84.5	121,979	78.8
Technical services fee . . . . .	7,642	8.3	7,859	6.6	25,773	16.7
Depreciation and amortization expenses. . . . .	2,794	3.1	2,840	2.4	3,593	2.3
Others <sup>(Note)</sup> . . . . .	4,732	5.2	7,747	6.5	3,401	2.2
<b>Total . . . . .</b>	<b>91,505</b>	<b>100.0</b>	<b>118,663</b>	<b>100.0</b>	<b>154,746</b>	<b>100.0</b>

*Note:* Others mainly include outsourcing research and development expenses and other overhead costs.

### Selling and marketing expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses primarily incurred for the promotion and advertisement of our Smart Devices and Other Accessories and AIGC solutions; (ii) channel fees resulting from a type of promotional activities in which certain institutions promoted our solutions and smart devices in their own business activities; and (iii) staff expenses associated with our sales and marketing staff. 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.

The following table sets forth a breakdown of the major components of our selling and marketing expenses for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%
Promotion and advertising expenses. . . . .	46,901	44.3	28,858	29.7	36,861	24.5
Channel fees . . . . .	30,853	29.1	36,246	37.3	75,534	50.1
Staff expenses . . . . .	23,465	22.1	28,746	29.6	33,946	22.5
Others <sup>(Note)</sup> . . . . .	4,719	4.5	3,270	3.4	4,370	2.9
<b>Total . . . . .</b>	<b>105,938</b>	<b>100.0</b>	<b>97,120</b>	<b>100.0</b>	<b>150,711</b>	<b>100.0</b>

*Note:* Others mainly include office expenses and expenses related to our after-sales service.

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### Administrative expenses

Our administrative expenses primarily consist of (i) staff expenses associated with our administrative staff; (ii) professional service fees primarily including consulting fees and audit fees; (iii) depreciation and amortization expenses; and (iv) [REDACTED] expenses. For the years ended December 31, 2021, 2022 and 2023, our administrative expenses amounted to RMB48.7 million, RMB55.2 million and RMB89.0 million, respectively. The following table sets out a breakdown of the major components of our administrative expenses for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Staff expenses . . . . .	33,762	69.3	37,928	68.8	47,099	52.9
Professional services fee. . . . .	2,921	6.0	2,720	4.9	4,207	4.7
Depreciation and amortization expenses . . . . .	5,042	10.4	4,870	8.8	4,466	5.0
[REDACTED] expenses . . . . .	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Office expenses . . . . .	3,677	7.6	3,398	6.2	3,231	3.6
Business tax and surcharges . . . . .	919	1.9	1,493	2.7	1,360	1.5
Recruitment expenses . . . . .	46	0.1	963	1.7	876	1.0
Bank charges . . . . .	878	1.8	579	1.0	645	0.7
Others <sup>(Note)</sup> . . . . .	1,456	3.0	1,754	3.2	2,449	2.9
<b>Total . . . . .</b>	<b>48,701</b>	<b>100.0</b>	<b>55,169</b>	<b>100.0</b>	<b>88,987</b>	<b>100.0</b>

*Note:* Others mainly include other overhead costs and non-operating expenses such as non-refundable deposits.

### Other income and losses, net

Our other income and losses, net primarily consist of (i) government grants primarily representing the funding support from the Nanjing Municipal Government; and (ii) interest income. For the years ended December 31, 2021, 2022 and 2023, our other income amounted to RMB35.7 million, RMB7.6 million and RMB24.7 million, respectively.

Our government grants from the Nanjing Municipal Government primarily consist of subsidies on our operation and research and development which had a significant impact on our Group’s financial performance during the Track Record Period. Part of the subsidies were granted upon satisfactions of certain conditions, including, among others, (i) establishment of our Group’s HQ Enterprise at the Nanjing Economic and Technological Development Zone upon completion of the statutory procedures with the local industry and commerce authorities and (ii) achieving certain level of revenue. Our tenancy expenses in relation to office and research and development bases,

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accommodations for our talents and purchase price of land for the HQ Enterprise were also subsidized. The subsidies are further subject to continuing fulfillment of certain ongoing conditions, which primarily include the Group’s continuous engagement in its principal business and the use of subsidy funds in accordance with the purposes specified by the Nanjing Municipal Government.

### **Impairment losses recognized on trade receivables**

We recorded impairment losses on trade receivables of RMB0.5 million, RMB1.2 million and RMB3.9 million for the years ended December 31, 2021, 2022 and 2023, respectively, which was primarily due to the increase in the amount and aging of trade receivables. For details, please refer to note 34(a) to the Accountants’ Report in Appendix I to this document.

### **Finance Costs**

Our finance costs primarily comprise interest on bank loans and other borrowings and interest on lease liabilities. We recorded finance costs of RMB1.0 million, RMB1.0 million and RMB0.3 million for the years ended December 31, 2021, 2022 and 2023, respectively.

### **Share of losses of joint venture**

We have established a joint venture company — Mobvoi JV, with Automotive Sub A in 2017. Share of losses of joint venture represents our shares in Mobvoi JV. We initially held 50% equity interest in Mobvoi JV and subsequently disposed of all our equity interest in 2022 as agreed with Automotive Sub A. Mobvoi JV was primarily engaged in the provision of in-vehicle AI technologies. During the Track Record Period, we had provided in-vehicle AI solutions to Mobvoi JV. We recorded share of losses of a joint venture of RMB18.6 million, RMB9.4 million and nil for the years ended December 31, 2021, 2022 and 2023 respectively.

### **Gain on disposal of interest in a joint venture/a subsidiary**

Gain on disposal of interest in a joint venture of RMB29.0 million for the year ended December 31, 2022 was derived from the disposal of Mobvoi JV during the same year. Gain on disposal of interest in a subsidiary of RMB0.8 million for the year ended December 31, 2023 was derived from the disposal of Beijing Xiaowen during the same year.

### **Changes in fair value of financial assets through profit or loss**

We recorded changes in fair value of financial assets of RMB1.2 million for the year ended December 31, 2022.

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### **Changes in the carrying amount of contingently redeemable preferred shares and ordinary shares**

Our Company issued several series of redeemable shares to investors. During the Track Record Period, we had issued and repurchased redeemable preferred shares and ordinary shares. We recorded changes in the carrying amount of contingently redeemable preferred shares and ordinary shares of negative RMB98.9 million, negative RMB775.1 million and negative RMB753.8 million for the years ended December 31, 2021, 2022 and 2023, respectively. For details, please refer to note 29 to the Accountants’ Report set out in Appendix I to this document.

### **Income tax**

We recorded income tax of RMB1.8 million, RMB1.3 million and RMB1.8 million for the years ended December 31, 2021, 2022 and 2023, respectively. For details, please refer to note 7(a) to the Accountants’ Report in Appendix I to this document.

### **Taxation**

#### ***PRC***

Under the PRC Income Tax Laws, an enterprise which qualifies as a High and New Technology Enterprise (“**HNTE**”) is entitled to a preferential tax rate of 15% provided it continues to meet HNTE qualification standards on an annual basis.

Beijing Yushanzhi and WWZN IT qualify as an HNTE and are entitled for a preferential tax rate of 15% from 2020 to 2025. Mobvoi IT qualifies as an HNTE and is entitled for a preferential tax rate of 15% from 2021 to 2023. Mobvoi Innovation qualifies as an HNTE and is entitled to a preferential tax rate of 15% from 2022 to 2024.

#### ***Cayman Islands***

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Companies Act, and is not subject to tax on income or capital gain. In addition, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

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### *Hong Kong*

The provision for Hong Kong Profits Tax for the Track Record Period is calculated at 16.5% of the estimated assessable profits for the year, except for two subsidiaries of our Group which are under the two-tiered profits tax rate regime, i.e. the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

### *United States*

Our subsidiary incorporated in United States is subject to U.S. corporate income tax on its taxable income at a rate of up to 24.53% during the Track Record Period.

### *Taiwan*

Our subsidiary incorporated in Taiwan is subject to corporate income tax of Taiwan on its taxable income at a rate of up to 20% during the Track Record Period.

### *Profit/(loss) and adjusted net (loss)/profit (non-IFRS measure) for the year from continuing operations*

As a result of the foregoing, for the years ended December 31, 2021, 2022 and 2023, we recorded net losses of RMB182.0 million, RMB685.0 million and RMB802.6 million, representing net loss margins of 45.7%, 136.9% and 158.3%, respectively. We recorded an adjusted net loss (non-IFRS measure) of RMB73.4 million for the year ended December 31, 2021, corresponding to an adjusted net loss margin (non-IFRS measure) of 18.4% for the same year. We recorded adjusted profit (non-IFRS measure) of RMB108.9 million and RMB17.5 million for the years ended December 31, 2022 and 2023, respectively, corresponding to adjusted net profits margins (non-IFRS measure) of 21.8% and 3.5% for the same years.

### *(Loss)/profit for the year from discontinued operations*

In 2021, we have disposed part of our interests in two subsidiaries. As such, the relevant results of our Group’s operations were presented as discontinued operations in our consolidated financial statements, which amounted to loss of RMB94.3 million, profit of RMB15.2 million and profit of nil for the years ended December 31, 2021, 2022 and 2023, respectively. For details of our acquisition and disposal of shares in Geekstar and Zhixue, please refer to the paragraphs headed “History, Reorganization and Corporate Structure — Major acquisitions, disposals and mergers — 1. Acquisition of Geekstar and subsequent disposal of shares in Geekstar” and “History, Reorganization and Corporate Structure — Major acquisitions, disposals and mergers — 2. Acquisition of Zhixue and subsequent disposal of shares in Zhixue” in this document.

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For details, please refer to note 11 to the Accountants’ Report in Appendix I to this document.

### **Exchange differences on translation of financial statements**

Our exchange differences on translation of financial statements refer to exchange difference of the Company that will not be reclassified to profit or loss and amounted to RMB35.9 million, negative RMB195.6 million and negative RMB38.8 million for the years ended December 31, 2021, 2022 and 2023, respectively. The fluctuations in exchange differences on translation of financial statements during the Track Record Period were primarily due to the appreciation and depreciation of our foreign currency positions as a result of fluctuations of the exchange rates of RMB against the U.S. dollar.

### **Changes in fair value of financial assets through other comprehensive income**

We recorded changes in fair value of financial assets through other comprehensive income of negative RMB1.8 million for the year ended December 31, 2023.

### **Exchange differences on translation of financial statements of overseas subsidiaries**

Our exchange differences on translation of financial statements of overseas subsidiaries refer to exchange difference of overseas subsidiaries that may be reclassified subsequently to profit or loss and amounted to RMB35.3 million, negative RMB120.1 million and negative RMB27.8 million for the years ended December 31, 2021, 2022 and 2023, respectively. The fluctuations in exchange differences on translation of financial statements during the Track Record Period were primarily due to the appreciation and depreciation of our foreign currency positions as a result of fluctuations of the exchange rates of RMB against the U.S. dollar.

## **YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS**

Below sets forth our year-to-year comparison of results of operations from continuing operations.

### **Year ended December 31, 2022 compared to year ended December 31, 2023**

#### ***Revenue***

Our total revenue increased by 1.4% from RMB500.2 million for the year ended December 31, 2022 to RMB507.1 million for the year ended December 31, 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.

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*AI Software Solutions — AIGC solutions:* Our revenue from AIGC solutions increased by 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, primarily due to the growth in number of paying users from approximately 237,000 in 2022 to approximately 410,000 in 2023 resulting from the launch of “Weta365” in March 2022, “DupDub” in July 2022 and “Mozhuan Writing” in September 2022 of which all were available throughout the year ended December 31, 2023, as compared to “Weta365” only being available for nine months in 2022. Additionally, our average revenue per paying user increased from RMB150 for the year ended December 31, 2022 to RMB248 for the year ended December 31, 2023, primarily attributable to an increase in the number of paying users subscribing for multiple AIGC platforms, and the addition of more features and add-ons that the paying users could purchase on top of their subscriptions on the AIGC platforms. There was also a growth in our business with enterprise customers primarily attributable to (i) the significant growth and expansion of the AIGC market in 2023; and (ii) the increasing maturity of our “Weta365” launched in March 2022 of which targeted customers include enterprises.

*AI Software Solutions — AI enterprise solutions:* Our revenue from AI enterprise solutions decreased by 14.2% from RMB263.0 million for the year ended December 31, 2022 to RMB225.6 million for the year ended December 31, 2023, primarily due to the decrease in revenue from IP rights arrangements in relation to the use of our in-vehicle AI technologies with Automotive Sub A, offset by an increase in the number of enterprise customers (excluding high-value clients) from 46 for the year ended December 31, 2022 to 57 for the year ended December 31, 2023 following the implementation of a more structured and expanded in-house sales team, as well as increased marketing efforts, as reflected in an increase in our selling and marketing expenses for the year ended December 31, 2023, compared to 2022.

*Smart Devices and Other Accessories:* Our revenue from Smart Devices and Other Accessories decreased by 17.0% from RMB197.3 million for the year ended December 31, 2022 to RMB163.8 million for the year ended December 31, 2023, primarily due to a decrease in the number of devices sold for our TicWatch series, partially offset by an increase in the average selling price for our TicWatch series and an increase in the number of devices sold for our Home Treadmill series. The number of devices sold for our TicWatch series decreased from approximately 169,000 for the year ended December 31, 2022 to approximately 109,000 for the year ended December 31, 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. The number of devices sold for our Home Treadmill series increased from approximately 16,000 for the year ended December 31, 2022 to approximately 22,000 for the year ended December 31, 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 as there was price reduction on older models upon the launch of new model.

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### *Cost of Sales*

Our cost of sales increased by 10.3% from RMB164.0 million for the year ended December 31, 2022 to RMB181.0 million for the year ended December 31, 2023. The increase was primarily attributable to a significant increase in impairment losses and obsolete inventories resulting from (i) the longer time interval between the launch of new flagship products which resulted in a decline in the value of older models at the later stages of their life cycle; and (ii) the introduction of new products in May 2023 which further reduced the competitiveness of older models. Additionally, we recorded a significant increase in our staff costs between 2022 and 2023 in connection with our AI enterprise solutions.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit decreased by 3.0% from RMB336.2 million for the year ended December 31, 2022 to RMB326.1 million for the year ended December 31, 2023, and our gross profit margin decreased from 67.2% to 64.3% for the same years.

*AI Software Solutions — AIGC solutions:* Our gross profit for AIGC solutions increased from RMB35.1 million for the year ended December 31, 2022 to RMB108.4 million for the year ended December 31, 2023, primarily due to the increase in our revenue and gross profit margin for AIGC solutions. Our gross profit margin for AIGC solutions increased from 88.0% for the year ended December 31, 2022 to 92.2% for the year ended December 31, 2023, primarily attributable to the benefits of economies of scale as our costs mainly consist of technical service fees which would not increase in proportion to the increment of the number of our paying users.

*AI Software Solutions — AI enterprise solutions:* Our gross profit for AI enterprise solutions decreased from RMB249.1 million for the year ended December 31, 2022 to RMB182.5 million for the year ended December 31, 2023, which was primarily due to the decrease in our revenue and gross profit margin for AI enterprise solutions. Our gross profit margin for AI enterprise solutions decreased from 94.7% for the year ended December 31, 2022 to 80.9% for the year ended December 31, 2023, primarily due to the increase in business activities related to quantity-based AI enterprise solutions which in generally have lower profit margins and decrease in revenue from project-based enterprise solutions.

*Smart Devices and Other Accessories:* Our gross profit for Smart Devices and Other Accessories decreased from RMB52.0 million for the year ended December 31, 2022 to RMB35.2 million for the year ended December 31, 2023, which was generally in line with the decrease in revenue from our Smart Devices and Other Accessories. Our gross profit margin for Smart Devices and Other Accessories decreased from 26.4% for the year ended December 31, 2022 to 21.5% for



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the year ended December 31, 2023, primarily due to the increase in impairment losses and obsolete inventories upon the new product launch in May 2023, partially offset by an increase in their average selling price.

### *Research and development expenses*

Our research and development expenses increased by 30.4% from RMB118.7 million for the year ended December 31, 2022 to RMB154.7 million for the year ended December 31, 2023, primarily due to the increase in number of staff in research and development function in relation to our solutions and the increase in technical service fees for the development of our large language model which are in line with our Group’s strategies to enrich our solution matrix and optimize capabilities of our “Sequence Monkey”, a multi-modal large language model.

### *Selling and marketing expenses*

Our selling and marketing expenses increased by 55.2% from RMB97.1 million for the year ended December 31, 2022 to RMB150.7 million for the year ended December 31, 2023 primarily due to (i) the increase in channel fees in connection with our AIGC platforms resulting from a type of promotional activities in which certain institutions promoted our AIGC memberships in their own business activities and charged us based on successful conversions into our paying users; and (ii) the increase of user traffic to our AIGC platforms during the year ended December 31, 2023. Our selling and marketing expenses represented 19.4% and 29.7% of our revenue for the years ended December 31, 2022 and 2023, respectively, primarily attributable to the decline in revenue from AI enterprise solutions and Smart Devices and Other Accessories, while our selling and marketing expenses increased by 55.2%.

### *Administrative expenses*

Our administrative expenses increased by 61.3% from RMB55.2 million for the year ended December 31, 2022 to RMB89.0 million for the year ended December 31, 2023, primarily due to the increase in staff expenses, professional service fees and [REDACTED] expenses. Our administrative expenses represented 11.0% and 17.5% of our revenue for the years ended December 31, 2022 and 2023, respectively.

### *Other incomes and losses, net*

Net other incomes and losses increased by 2.26 times from RMB7.6 million for the year ended December 31, 2022 to RMB24.7 million for the year ended December 31, 2023, primarily due to an increase in government grants for the year ended December 31, 2023.

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### *Impairment losses recognized on trade receivables*

We recorded impairment losses on trade receivables of RMB1.2 million and RMB3.9 million for the years ended December 31, 2022 and 2023, respectively.

### *Finance costs*

Our finance costs were relatively stable at RMB1.0 million and RMB0.3 million for the years ended December 31, 2022 and 2023, respectively.

### *Changes in the carrying amount of contingently redeemable preferred shares and ordinary shares*

Our loss from changes in the carrying amount of contingently redeemable preferred shares and ordinary shares decreased by 2.7% from RMB775.1 million for the year ended December 31, 2022 to RMB753.8 million for the year ended December 31, 2023, primarily due to the lower rate of valuation growth of our Group during the year ended December 31, 2023, as compared to 2022.

### *Income tax*

Income tax increased from RMB1.3 million for the year ended December 31, 2022 to RMB1.8 million for the year ended December 31, 2023.

### *Loss and adjusted net profit (non-IFRS measure) for the year*

As a result of the foregoing, we recorded loss of RMB669.8 million and loss of RMB802.6 million for years ended December 31, 2022 and 2023, respectively. We recorded adjusted net profits (non-IFRS measure) of RMB108.9 million and RMB17.5 million for the years ended December 31, 2022 and 2023, respectively, corresponding to adjusted net profit margins (non-IFRS measure) of 21.8% and 3.5%, respectively.

### **Year ended December 31, 2022 compared with year ended December 31, 2021**

#### *Revenue*

Our total revenue increased by 25.7% from RMB397.9 million for the year ended December 31, 2021 to RMB500.2 million for the year ended December 31, 2022, primarily due to the increase in our revenue from AIGC solutions and AI enterprise solutions which was partially offset by the decrease in our revenue from Smart Devices and Other Accessories.

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*AI Software Solutions — AIGC solutions:* Our revenue from AIGC solutions increased by 4.9 times from RMB6.8 million for the year ended December 31, 2021 to RMB39.9 million for the year ended December 31, 2022, primarily due to the increase in number of paying users from approximately 63,000 in 2021 to approximately 237,000 in 2022 resulting from the launch of our “Weta365” in March 2022, “DupDub” in July 2022 and “Mozhuan Writing” in September 2022. Additionally, our average revenue per paying user increased from RMB104 in 2021 to RMB150 in 2022, attributable to the fact that all the solutions newly launched in 2022 have subscription fees higher than “Moyin Workshop” which was the only AIGC platform available in 2021. Also, upon the launch of the new AIGC solutions in 2022, our paying users could subscribe for multiple AIGC platforms.

*AI Software Solutions — AI enterprise solutions:* Our revenue from AI enterprise solutions increased by 4.0 times from RMB52.7 million for the year ended December 31, 2021 to RMB263.0 million for the year ended December 31, 2022, primarily due to (i) the increase in revenue from IP rights arrangements in relation to the use of our in-vehicle AI technologies with Automotive Sub A; and (ii) an increase in the average revenue per enterprise customer (excluding high-value clients) from RMB437,000 in 2021 to RMB647,000 in 2022 through our continuous accumulation of technological know-how and the enhanced features of our AI enterprise solutions resulting in an increase in our average contract value, whilst the number of enterprise customers (excluding high-value clients) decreased mildly from 51 in 2021 to 46 in 2022.

*Smart Devices and Other Accessories:* Our revenue from Smart Devices and Other Accessories decreased by 41.7% from RMB338.4 million for the year ended December 31, 2021 to RMB197.3 million for the year ended December 31, 2022, primarily due to a decrease in the number of devices sold and the average selling price for our TicWatch series and Home Treadmill series. The number of devices sold for our TicWatch series decreased from 295,000 in 2021 to 169,000 in 2022 following the delay in launching of our new flagship TicWatch product whilst our old models entered into the later stage of product life cycle. The number of devices sold for our Home Treadmill series remained stable at 15,000 in 2021 and 16,000 in 2022 whilst their average selling dropped from RMB2,533 in 2021 to RMB2,186 in 2022 due to price reduction on older models upon the launch of new models.

### *Cost of Sales*

Our cost of sales decreased by 34.0% from RMB248.7 million for the year ended December 31, 2021 to RMB164.0 million for the year ended December 31, 2022. The decrease was primarily attributable to the decrease in our cost of inventories which was in line with our decrease in revenue from Smart Devices and Other Accessories for the year ended December 31, 2022.

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### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by 125.3% from RMB149.2 million for the year ended December 31, 2021 to RMB336.2 million for the year ended December 31, 2022, and our gross profit margin increased from 37.5% to 67.2% during the same period.

*AI Software Solutions — AIGC solutions:* Our gross profit for AIGC solutions increased from RMB4.7 million for the year ended December 31, 2021 to RMB35.1 million for the year ended December 31, 2022, which was primarily due to the increase in our revenue and gross profit margin for AIGC solutions. Our gross profit margin for AIGC solutions increased from 68.8% for the year ended December 31, 2021 to 88.0% for the year ended December 31, 2022 primarily attributable to the benefits of economies of scale as our costs mainly consist of technical service fees which would not increase in proportion to the increment of the number of our paying users.

*AI Software Solutions — AI enterprise solutions:* Our gross profit for AI enterprise solutions increased from RMB32.7 million for the year ended December 31, 2021 to RMB249.1 million for the year ended December 31, 2022, which was primarily due to the increase in our revenue and gross profit margin for AI enterprise solutions. Our gross profit margin for AI enterprise solutions increased from 62.0% for the year ended December 31, 2021 to 94.7% for the year ended December 31, 2022, primarily due to the increase in proportion of revenue with higher gross profit margin as we utilized our previous research and development results through IP rights arrangements with Automotive Sub A.

*Smart Devices and Other Accessories:* Our gross profit for Smart Devices and Other Accessories decreased from RMB111.8 million for the year ended December 31, 2021 to RMB52.0 million for the year ended December 31, 2022, which was in line with our decrease in revenue from our Smart Devices and Other Accessories. Our gross profit margin for Smart Devices and Other Accessories decreased from 33.1% for the year ended December 31, 2021 to 26.4% for the year ended December 31, 2022, primarily due to the lower average selling price arising from the price decline of in old models of products while we delayed our launching of new flagship products, which led to an increase in our inventories turnover days and thus an increase in impairment losses and obsolete inventories in 2022.

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### *Research and development expenses*

Our research and development expenses increased by 29.7% from RMB91.5 million for the year ended December 31, 2021 to RMB118.7 million for the year ended December 31, 2022, primarily due to the increase in number of staff in research and development in relation to our solutions which is in line with our Group’s strategies. Our research and development expenses represented 23.0% and 23.7% of our revenue for the years ended December 31, 2021 and 2022, respectively.

### *Selling and marketing expenses*

Our selling and marketing expenses decreased by 8.3% from RMB105.9 million for the year ended December 31, 2021 to RMB97.1 million for the year ended December 31, 2022 primarily due to the absence of the launch of a new flagship product in Smart Devices and Other Accessories in 2022, resulting in a reduction in promotion and advertising expenses. Our selling and marketing expenses represented 26.6% and 19.4% of our revenue for the years ended December 31, 2021 and 2022, respectively, primarily attributable to the benefits of economies of scale and increase in revenue from AI enterprise solutions.

### *Administrative expenses*

Our administrative expenses increased by 13.3% from RMB48.7 million for the year ended December 31, 2021 to RMB55.2 million for the year ended December 31, 2022, primarily due to the increase in staff expenses. Our administrative expenses represented 12.2% and 11.0% of our revenue for the years ended December 31, 2021 and 2022, respectively.

### *Other incomes and losses, net*

Net other incomes and losses decreased by 78.7% from RMB35.7 million for the year ended December 31, 2021 to RMB7.6 million for the year ended December 31, 2022, primarily due to the decrease in government grants in 2022.

### *Impairment losses on trade receivables*

We recorded an impairment losses on trade receivables of RMB0.5 million and RMB1.2 million for the years ended December 31, 2021 and 2022, respectively.

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### *Finance costs*

Our finance costs were relatively stable at RMB1.0 million for the years ended December 31, 2021 and 2022.

### *Changes in the carrying amount of contingently redeemable preferred shares and ordinary shares*

Our loss from changes in the carrying amount of contingently redeemable preferred shares and ordinary shares increased by 6.8 times from RMB98.9 million for the year ended December 31, 2021 to RMB775.1 million for the year ended December 31, 2022, primarily due to the higher rate of valuation growth of our Group in 2022, as compared to 2021.

### *Income tax*

Income tax decreased by 27.8% from RMB1.8 million for the year ended December 31, 2021 to RMB1.3 million for the year ended December 31, 2022.

### *Loss and adjusted net (loss)/profit (non-IFRS measure) for the year*

As a result of the foregoing, we recorded loss of RMB182.0 million and RMB685.0 million for the years ended December 31, 2021 and 2022, respectively. We recorded an adjusted net loss (non-IFRS measure) of RMB73.4 million and an adjusted net profit (non-IFRS measure) of RMB108.9 million for the years ended December 31, 2021 and 2022, respectively, corresponding to an adjusted net loss margin (non-IFRS measure) of 18.4% and an adjusted net profit margin (non-IFRS measure) of 21.8%, respectively.

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### NET CURRENT ASSETS OR LIABILITIES

The following table sets out a breakdown of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of
	2021	2022	2023	February 29,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2024 <i>RMB'000</i> (unaudited)
<b>Current assets</b>				
Inventories . . . . .	123,944	94,918	66,734	58,158
Trade receivables . . . . .	45,464	40,024	57,981	30,974
Prepayments, deposits and other receivables . . . . .	48,237	34,368	44,484	45,776
Financial assets measured at fair value through profit or loss . . . . .	7,707	124,119	34,844	34,844
Financial assets measured at fair value through other comprehensive income . . . . .	—	—	47,066	36,820
Time and restricted deposits . . . . .	21,081	70,903	780	768
Cash and cash equivalents . . . . .	131,758	40,250	144,324	146,709
	<u>378,191</u>	<u>404,582</u>	<u>396,213</u>	<u>354,049</u>
<b>Current liabilities</b>				
Trade payables . . . . .	29,535	17,694	24,552	19,495
Other payables and accruals . . . . .	54,387	54,224	63,312	51,559
Contract liabilities . . . . .	151,842	60,873	53,131	62,152
Bank loans . . . . .	20,000	20,000	—	—
Lease liabilities . . . . .	6,336	6,831	3,148	2,365
Contingently redeemable preferred shares and ordinary shares . . . . .	3,240,626	3,536,115	4,353,833	4,466,922
Current taxation . . . . .	1,781	1,343	975	978
Warranty provisions . . . . .	15,423	16,467	18,479	18,494
Deferred income . . . . .	—	7,800	—	—
	<u>3,519,930</u>	<u>3,721,347</u>	<u>4,517,430</u>	<u>4,621,965</u>
<b>Net current liabilities . . . . .</b>	<b><u>(3,141,739)</u></b>	<b><u>(3,316,765)</u></b>	<b><u>(4,121,217)</u></b>	<b><u>(4,267,916)</u></b>

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We recorded net current liabilities of RMB3,141.7 million, RMB3,316.8 million and RMB4,121.2 million as of December 31, 2021, 2022 and 2023, respectively, primarily attributed to contingently redeemable preferred shares and ordinary shares.

Our net current liabilities increased from RMB4,121.2 million as of December 31, 2023 to RMB4,267.9 million as of February 29, 2024, primarily due to increase of contingently redeemable preferred shares and ordinary shares.

Our redeemable preferred shares and ordinary shares issued will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares and our position of net liabilities would turn into net assets upon the [REDACTED].

### DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

#### Inventories

Our inventories primarily comprise (i) finished goods; (ii) work in progress; and (iii) raw materials. As of December 31, 2021, 2022 and 2023, we wrote down RMB20.0 million, RMB20.9 million and RMB29.7 million of inventories, respectively.

Our inventories decreased from RMB123.9 million as of December 31, 2021 to RMB94.9 million as of December 31, 2022 and further to RMB66.7 million as of December 31, 2023, which was in line with the trend of our sales of Smart Devices and Other Accessories.

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

	For the year ended December 31,		
	2021	2022	2023
Inventory turnover days <sup>(Note)</sup> . . . . .	159.2	242.5	163.0

*Note:* Inventory turnover days for the years ended December 31, 2021, 2022 and 2023 year equals to the average of beginning and ending net inventory for each year divided by the sum of cost of sales of continuing operations and discontinued operations for the same year and multiplied by the number of days during the year.



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The increase in our inventory turnover days from 159.2 days in 2021 to 242.5 days in 2022 was primarily due to the absence of a new flagship product launch in Smart Devices and Other Accessories during 2022. This, in turn, resulted in impairment losses and obsolete inventories which mainly comprised of TicWatch Pro 3 launched in 2020. However, there was a positive rebound in our inventory turnover days, dropping from 242.5 days in 2022 to 163.0 days in 2023, following the launch of the TicWatch Pro 5 in May 2023. The product launch also led to a greater extent of impairment losses and obsolete inventories, as the introduction of new models accelerated the obsolescence of older models.

RMB15.1 million, or approximately 17.2% of our finished goods as of December 31, 2023 were sold and RMB5.4 million, or approximately 60.2% of our raw materials as of December 31, 2023 were used for the period from January 1, 2024 to February 29, 2024. Our work in progress as of December 31, 2021 and 2022 entirely represented the accumulated costs incurred in connection with a NRE project related to SDS with Mobvoi JV. The costs primarily comprised labor costs associated with the research and development of SDS. The accumulated costs were recognized as work in progress as of December 31, 2021 and 2022 in accordance with paragraph 95 of IFRS 15 because our Group had not fulfilled our performance obligation under the NRE agreement. The performance obligation entailed delivering the specified deliverables which satisfied Mobvoi JV’s requirements. Our Group had transferred the control of the relevant deliverables to Mobvoi JV and had satisfied all rectification requirements during the second half of 2023.

The following tables set forth an aging analysis of our inventories as of the dates indicated:

Analysis by age group	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Cost of inventory</i>			
Within 1 year . . . . .	100,814	65,448	71,748
Over 1 year . . . . .	43,116	50,333	24,691
<b>Total</b> . . . . .	<b>143,930</b>	<b>115,781</b>	<b>96,439</b>

Analysis by categories group	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Book value</i>			
Finished goods . . . . .	100,925	82,250	87,398
Work in progress . . . . .	21,093	21,093	—
Raw materials . . . . .	21,912	12,438	9,041
Less: write down of inventories . . . . .	(19,986)	(20,863)	(29,705)
<b>Total</b> . . . . .	<b>123,944</b>	<b>94,918</b>	<b>66,734</b>

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Our Directors are of the view that there is no material recoverability issue for our inventories, primarily because (i) a substantial portion of the inventories as of December 31, 2023 were aged less than one year, (ii) our raw materials and certain finished goods are generally not subject to expiration, and the finished aged over one year are not perishable or fragile products and can maintain saleable value and (iii) we assessed our finished goods’ applicability from time to time and recorded cost of sales for forfeiture of any outdated ones, and therefore considered there was no material difficulty in the utilization of our inventories as of the end of each reporting period. As a result, we made sufficient provisions for our inventories at the end of each reporting period.

### Trade receivables

Our trade receivables mainly represented the outstanding amounts receivable by us from the sale of our solutions in the ordinary course of business. During the Track Record Period, we had generally granted credit terms ranging from 0–90 days. The following table sets forth the general credit terms of each of our segments during the Track Record Period:

<u>Segment</u>	<u>Credit term</u>
<b>AI Software Solutions</b>	
AI enterprise solutions	
— Project-based	Payment should generally be made in full within 0 to 90 days after customers receive our AI enterprise solutions. For Automotive Sub A, payment should be made in accordance with the terms of the IP rights arrangements entered into between the parties. For details, please refer to the paragraph headed “Business — Our Solutions — AI Software Solutions — AI enterprise solutions — IP rights arrangements with Automotive Sub A” in this document.
AIGC solutions	
— Subscription	Payment should generally be made in full prior to the start of the subscription period.
— Project-based	Payment should generally be made in full within 0 to 60 days after we invoice our customers.

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Segment	Credit term
<b>Smart Devices and Other Accessories</b>	
— Direct sales	Payment should generally be made in full prior to the shipment arranged by us.
— Distributors	Payment should generally be made in full by distributors for our Smart Devices and Other Accessories prior to the shipment arranged by us. For certain distributors, payment should be made in full within 60 to 90 days after we deliver our Smart Devices and Other Accessories to customers.

The following table sets out a breakdown of our trade receivables as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from related parties . . . . .	3,944	3,954	—
Amounts due from third parties . . . . .	47,725	43,470	69,266
<b>Gross amount of trade receivables . . . . .</b>	<b>51,669</b>	<b>47,424</b>	<b>69,266</b>
Less: loss allowance . . . . .	(6,205)	(7,400)	(11,285)
<b>Trade receivables, net . . . . .</b>	<b>45,464</b>	<b>40,024</b>	<b>57,981</b>

Our trade receivables decreased from RMB45.5 million as of December 31, 2021 to RMB40.0 million as of December 31, 2022, primarily due to the decrease in revenue from our Smart Devices and Other Accessories. Our trade receivables increased to RMB58.0 million as of December 31, 2023, primarily due to the launch of TicWatch Pro 5 which increased our revenue for the second half of 2023 and the increase in revenue from our AI enterprise customers (excluding high-value clients) in 2023. Our amounts due from related parties were relatively stable at RMB3.9 million, RMB4.0 million as of December 31, 2021 and 2022, respectively, and decreased to nil as of December 31, 2023 as our business with Technology Corporation A ceased in 2023. Our trade receivables decreased to RMB31.0 million as of February 29, 2024.

Trade receivables written off for the years ended December 31, 2021, 2022 and 2023 amounted to RMB2.4 million, RMB0.8 million and nil, respectively, which were primarily attributable to the uncollectible tuition fees of our online education service.

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The aging analysis of the trade receivables as of the balance sheet dates based on date of revenue recognition was as follows:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days . . . . .	44,873	39,818	56,592
90–360 days . . . . .	591	206	1,389
	45,464	40,024	57,981

The following table sets out the number of our trade receivables turnover days for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Trade receivables turnover days <sup>(Note)</sup> . . . . .	29.6	31.2	35.3

*Note:* Trade receivables turnover days for the years ended December 31, 2021, 2022 and 2023 equal to the average of the beginning and ending trade receivables balance for each year divided by the sum of revenue of continuing operations and discontinued operations for the same year and multiplied by number of days during the year.

Our trade receivables turnover days was relatively stable at 29.6 days in 2021, 31.2 days in 2022 and 35.3 days in 2023. The slight increase in trade receivables turnover days from 2021 to 2022 was due to the decrease in our Smart Devices and Other Accessories revenue generated from a major distributor, which was partially offset by increased revenues from our IP rights arrangements with Automotive Sub A and our AIGC solutions, resulting in a change to our revenue mix. The increase in trade receivables turnover days from 31.2 days in 2022 to 35.3 days in 2023 was primarily due to the launch of TicWatch Pro 5 in May 2023, which resulted in increased revenue from our Smart Devices and Other Accessories during the second half of 2023. Consequently there was an increase in our trade receivables as of December 31, 2023 compared to that as of December 31, 2022. The impact of the increase in our trade receivables was partially offset by an increase in our overall revenue between 2022 and 2023. As there was no credit period associated with the revenues generated from our IP rights arrangements with Automotive Sub A and our AIGC solutions, these revenues did not give rise to any trade receivables.

RMB36.0 million, or approximately 52.0% of our trade receivables as of December 31, 2023 were subsequently settled as of February 29, 2024.

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To assess the adequacy of the impairment of our trade receivables, our Directors have considered the recoverability of individual customers, including among others, the credit history, the historical settlement records, the aging analysis, and forward-looking information. Based on the results of our Director’s assessment, we provided the impairment losses of our trade receivables in accordance with the accounting policies in Note 2(j) to Accountants’ Report set out in Appendix I to this document. On the basis of each of the factors as assessed above, our Directors considered the impairment losses on trade receivables made as of the end of each year during the Track Record Period were sufficient.

### **Prepayments, deposits and other receivables**

Our prepayments, deposits and other receivables mainly comprised (i) prepayments for commissioned processing fee and raw materials, and service fees; and (ii) deposits for leased properties and online shops.

Our prepayments, deposits and other receivables decreased from RMB48.2 million as of December 31, 2021 to RMB34.4 million as of December 31, 2022, which were primarily attributable to the decrease in prepayments to our suppliers resulting from our reduced commissioned processing fee, based on our estimated decrease in overseas sales and collection of bill receivables arising from government grants. Our prepayments, deposits and other receivables rebounded to RMB44.5 million as of December 31, 2023, which were primarily attributable to an increase in our refundable VAT for export sales as of December 31, 2023 as we made fewer VAT refund applications in 2023. This was partially offset by the decrease in prepayments to our suppliers resulting from the decrease in production activities scheduled for early 2024, compared those scheduled for early 2023.

Deposits and other receivables written off for the year ended December 31, 2022 amounted to RMB5.9 million, which mainly included the loan to a third party amounting to RMB4.2 million and uncollectible sales channel deposit of online education service amounting to RMB1.7 million. For the year ended December 31, 2023, we recorded no write-offs.

RMB8.3 million, or approximately 18.7% of our prepayments, deposits and other receivables as of December 31, 2023 were subsequently settled as of February 29, 2024.

### **Financial assets measured at fair value through profit or loss**

During the Track Record Period, our financial assets measured at fair value through profit or loss mainly represented the investment in certain wealth management products issued by reputable financial institutions in the PRC. We recorded RMB7.7 million, RMB124.1 million and RMB34.8 million as of December 31, 2021, 2022 and 2023, respectively.

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

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wealth management products			
<i>(note (i))</i> . . . . .	7,707	89,275	—
Other investment in equity securities			
<i>(note (ii))</i> . . . . .	—	34,844	34,844
	7,707	124,119	34,844

*Notes:*

- (i) As of December 31, 2021 and 2022, the wealth management products were issued by reputable financial institutions in the PRC. The principal amount and expected returns of these wealth management products are not guaranteed.
- (ii) As of December 31, 2022 and 2023, the other investment in equity securities was the remaining investment in Geekstar held by the Company.

During the Track Record Period, we invested primarily in wealth management products with low risk profiles that were either redeemable on demand or had a term up to 182 days. The other investment in equity securities was the remaining investment in Geekstar held by the Company, which is low-risk. To monitor and control the investment risks associated with our wealth management product portfolio and other investment in equity securities, we have established a set of internal risk management policies and guidelines. Steered by the Board, our chief financial officer, is responsible for overseeing our investment activities. The chief financial officer has been strengthening the supervision of our investment activities since he joined our Group and was highly involved in our historical investments. Our investment strategy related to wealth management products and other investment in equity securities focuses on minimizing the financial risks by reasonably and conservatively matching the maturities of the investments to anticipated operating cash needs, while generating desirable investment returns for the benefits of our Shareholders. We primarily invest in wealth management products issued by reputable financial institutions in the PRC with relatively low risks for a short- to long-term of no more than 182 days. We make investment decisions related to wealth management products and other investment in equity securities on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions, risk control and credit of issuing banks, our own working capital conditions, and the expected profit or potential loss of the investment. Prior to (i) making any potential material investments in structured deposits and wealth management products and other investment in equity securities, (ii)

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modifying the existing investment portfolio, or (iii) conducting a certain transaction, the finance department is responsible for conducting a size test based on the percentage ratios in accordance to Chapter 14 of the Listing Rules. The calculation must be submitted to the chief financial officer for approval, and the relevant results will be recorded in writing, which will be approved by the Directors for review. The Directors will take into consideration the aforementioned to assess the impact and size of investment before execution of the relevant investment decisions. The finance department is responsible for managing and coordinating the analyzes and decisions on the Group’s investment, such as obtaining feasibility reports or valuation reports on the investments to be made. Depending on the size of investment proposed to be made, the investment plan shall be put forward to the responsible body for consideration and approval, including the Chairman, the Board or Shareholders at general meeting and will be subject to the compliance with Chapter 14 of the Listing Rules after the [REDACTED]. The finance department is also responsible for ongoing monitoring of the Group’s investments.

### *Fair value measurement*

Fair values are categorized into the three-level fair value hierarchy as defined in IFRS 13 “Fair Value Measurement”. All assets and liabilities for which fair value is measured or disclosed are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

We measure our wealth management products and other investment in equity securities at fair value at the end of each of the Track Record Period.

We have estimated the fair value of other investment in equity securities purchased by us by using a valuation model for which not all inputs are observable and is within Level 3 of the fair value hierarchy.

We have implemented internal policies to ensure the reasonableness of fair value measurement on the level 3 financial assets. Our Directors are aware of the “Guidance note on directors’ duties in the context of valuations in corporate transactions” issued by the SFC. In this

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regard, our Directors confirmed that (i) they had exercised due care, skill and diligence and supervised their responsible employees when making the investment decisions; and (ii) they had complied with the standard exercised by a reasonably diligent person with the knowledge, skill and experience that may be reasonably expected of a director carrying out the functions of the directors in relation to the company. Moreover, our Directors have adopted the following internal policies and procedures in relation to the reasonableness of fair value measurement on our wealth management products and other investment in equity securities:

- Designing a finance team to be responsible for (i) determining the policies and procedures for the fair value measurement of financial instrument, (ii) analyzing the movements in the values of financial instruments and (iii) reporting directly to our Directors regularly on the fair value measurement of financial instruments;
- Reviewing the relevant contract terms of the investment agreements entered into; and
- Considering all inputs to the valuation which require management judgments and estimations

Our Directors are satisfied with the valuation work for financial instruments categorized within Level 3 of fair value measurement in our Historical Financial Information as referred to in Appendix I to this document.

Details of the other investment in equity securities, particularly the fair value hierarchy and the valuation techniques, are disclosed in Note 34 to the Accountants’ Report in Appendix I to this document from the Reporting Accountants in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountants’ opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on pages I-1 to I-3 of the Accountants’ Report in Appendix I to this document.

Based on the independent due diligence work conducted by the [REDACTED], including but not limited to, (i) reviewing the relevant notes included in the Accountants’ Report as contained in Appendix I to the Document; (ii) discussing with the Reporting Accountants in respect of the work performed in relation to the valuation of the level 3 financial assets for the purpose of reporting on the historical financial information of the Group for the Track Record Period as a whole; and (iii) obtaining and reviewing the valuation report prepared by an independent valuer; (iv) discussing with our Company and the valuer on the primary factors taken into account, the key assumptions and methodologies adopted for the valuation; and (v) reviewing the credentials,



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qualifications and experience of the valuer in order to assess the independence and competency of the valuer, nothing has come to the attention of the [REDACTED] that would cause the [REDACTED] to disagree with the valuation analysis performed by the valuer.

### Financial assets measured at fair value through other comprehensive income

Our financial assets measured at fair value through other comprehensive income entirely consist of large deposit certificates. During 2023, we purchased those large deposit certificates with the intent to collect contractual cash flows and sell. As of December 31, 2023, they amounted to RMB47.1 million.

### Trade Payables

Our trade payables primarily consist of balance due to our suppliers for purchase of raw materials and provision of services. During the Track Record Period, we were generally been required to pay prepayments or offered credit periods of 30-60 days. The following table sets forth our trade payables as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables due to third parties . . . . .	29,535	17,694	24,552

Our trade payables decreased from RMB29.5 million as of December 31, 2021 to RMB17.7 million as of December 31, 2022, which was in line with the decrease in cost of sales from Smart Devices and Other Accessories. Our trade payables increased from RMB17.7 million as of December 31, 2022 to RMB24.6 million as of December 31, 2023, primarily due to the rise in production activities carried out in late 2023 compared to late 2022.

The following table sets out an aging analysis of our trade payables as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year or on demand . . . . .	29,535	17,694	24,552

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The following table sets out the number of our trade payables turnover days for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Trade payables turnover days <sup>(Note)</sup> . . . . .	37.8	52.3	42.6

*Note:* Trade payables turnover days for the years ended December 31, 2021, 2022 and 2023 equal to the average of the beginning and ending of trade payables balance for each year divided by the sum of cost of sales of continuing operations and discontinued operations for the same year and multiplied by number of days during the year.

Our trade payables turnover days increased from 37.8 days in 2021, to 52.3 days in 2022, due to the delay in launching of our new flagship products and sales of our existing products was below our expectation. Our trade payables turnover days decreased from 52.3 days in 2022 to 42.6 days in 2023, due to an increase in our cost of sales between the same years. The increase was primarily attributable to impairment losses and obsolete inventories which did not give rise to payment liabilities.

RMB15.0 million, or approximately 60.9% of trade payables as of December 31, 2023 were subsequently settled as of February 29, 2024.

### Other payables and accruals

Our other payables and accruals primarily comprise (i) payroll and welfare payable to our staff; (ii) payables for advertising and services; (iii) other financial liabilities measured at amortized cost; and (iv) other tax payables.

Our other payables and accruals remained relatively stable at RMB54.4 million, RMB54.2 million and RMB63.3 million, respectively, as of December 31, 2021, 2022 and 2023.

### Contract liabilities

Our contract liabilities mainly represented the prepayment for our AI Software Solutions that we have yet to recognize as revenue.

Our contract liabilities decreased from RMB151.8 million as of December 31, 2021 to RMB60.9 million as of December 31, 2022, primarily due to receipt of the payment for the underlying technologies and patents provided in late 2021 pursuant to the terms of our IP rights arrangements with Automotive Sub A. As of December 31, 2021, we had not yet received confirmation on the completion of backend test run by Automotive Sub A in 2021 for the relevant

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know-how delivered by our Group to Automotive Sub A, i.e. we had not satisfied certain performance obligations under the IP rights arrangements. The amount received was recognized as contract liabilities as of December 31, 2021. The payment was subsequently recognized as revenue in 2022 upon receiving confirmation from Automotive Sub A regarding the satisfaction of the backend test. According to our revenue recognition policy which complies with IFRS 15 “Revenue from Contracts with Customers”, revenue for our IP rights arrangements with Automotive Sub A was recognized when Automotive Sub A accepted the related deliverables, i.e. when our Group satisfied the related performance obligations by transferring the control of the deliverables to Automotive Sub A. Our contract liabilities increased to RMB72.9 million as of December 31, 2023, of which the non-current portion amounted to RMB19.7 million, primarily due to an increase in the number of paying users on our AIGC platforms, partially offset by the complete realization of revenue from Mobvoi JV upon completion of our performance obligations in 2023.

RMB10.1 million, or approximately 19.0% of contract liabilities as of December 31, 2023 were subsequently settled as of February 29, 2024.

### Goodwill

We recognized the goodwill from the acquisition of our online education business in 2020.

We recorded goodwill of RMB130.7 million as of December 31, 2021. The decrease from RMB130.7 million in 2021 to nil in 2022 was due to our disposal of online education business. It remained nil as of December 31, 2023.

### *Impairment tests for cash-generating units containing goodwill*

Goodwill is allocated to the Group’s cash-generating unit (“CGU”) identified as follows:

	For the year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Provision of online education services. . . . .	130,660	—	—
	130,660	—	—

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The recoverable amount of the CGU is determined based on fair value less cost of disposal. Fair value is the price that would be received to sell the CGU in an orderly transaction between market participants at the measurement date. The pre-tax discount rate was 21% as of December 31, 2021.

### Interest in joint venture

We have established a joint venture company, Mobvoi JV, with Automotive Sub A in 2017. We initially held 50% equity interest in Mobvoi JV and subsequently disposed of relevant equity interest in 2022 as agreed with Automotive Sub A.

### Contingently redeemable preferred shares and ordinary shares

The following table sets forth the details of our contingently redeemable preferred shares and ordinary shares as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contingently redeemable preferred shares . .	2,571,121	2,042,728	2,458,493
Contingently redeemable ordinary shares . .	669,505	1,493,387	1,895,340
	<u>3,240,626</u>	<u>3,536,115</u>	<u>4,353,833</u>

Our Company issued several series of redeemable shares to investors. During the Track Record Period, we had issued and repurchased redeemable preferred shares and ordinary shares. For details, please refer to note 29 to the Accountants' Report set out in Appendix I to this document.

As of December 31, 2021, 2022 and 2023, we recorded contingently redeemable preferred and ordinary shares of RMB3,240.6 million, RMB3,536.1 million and RMB4,353.8 million, respectively. Our redeemable preferred shares and ordinary shares issued will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares and our position of net liabilities would turn into net assets upon the [REDACTED].

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### INDEBTEDNESS

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

	As of December 31,			As of February 29,
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Bank loans . . . . .	20,000	20,000	—	—
Lease liabilities . . . . .	15,910	9,574	3,461	2,846
<b>Total . . . . .</b>	<b>35,910</b>	<b>29,574</b>	<b>3,461</b>	<b>2,846</b>

### Bank loans

We had bank loans of RMB20.0 million as of December 31, 2021, RMB20.0 million as of December 31, 2022, nil as of December 31, 2023 and nil as of February 29, 2024, being the indebtedness date for the purpose of the indebtedness statement.

The following table sets forth our effective interest rates for the bank loans as of the dates indicated:

	As of December 31,			As of February 29,
	2021	2022	2023	2024
	Bank loan within one year . . . . .	3.85%	2.70%	N/A

Our bank borrowings agreements contain standard terms, conditions and covenants that are customary for commercial bank loans. Our Directors confirm that, there had been no material covenant on any of our outstanding debt as of the Latest Practicable Date, and there had been no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we had not experienced any unusual difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date. Our Group had no unutilized bank loan facility as of the Latest Practicable Date.

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### Lease liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of February 29,
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
<b>Lease liabilities</b>				
Current . . . . .	6,336	6,831	3,148	2,365
Non-current . . . . .	9,574	2,743	313	481
<b>Total . . . . .</b>	<b><u>15,910</u></b>	<b><u>9,574</u></b>	<b><u>3,461</u></b>	<b><u>2,846</u></b>

The following table sets forth the maturity analysis of our lease liabilities as of the dates indicated:

	As of December 31,			As of February 29,
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
<b>Lease liabilities</b>				
Within one year . . . . .	6,336	6,831	3,148	2,365
After one year but within two years . . . . .	6,831	2,743	313	481
After two years but within five years . . . . .	2,743	—	—	—
	<u>9,574</u>	<u>2,743</u>	<u>313</u>	<u>481</u>
<b>Total . . . . .</b>	<b><u>15,910</u></b>	<b><u>9,574</u></b>	<b><u>3,461</u></b>	<b><u>2,846</u></b>

We recorded lease liabilities of RMB15.9 million, RMB9.6 million and RMB3.5 million as of December 31, 2021, 2022 and 2023, respectively. The continuous decrease from 2021 to 2023 was primarily attributable to our settlement of rental expenses. Our lease liabilities decreased from RMB3.5 million as of December 31, 2023 to RMB2.8 million as of February 29, 2024, primarily due to our settlement of rental expenses.

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Our Directors confirm that there was no outstanding debt as of the Latest Practicable Date and there was no breach of any covenant during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Except as disclosed above, during the Track Record Period, and as of February 29, 2024, being the indebtedness date for the purpose of indebtedness statement, we had not had any other material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other material contingent liabilities.

Our Directors confirm that there had been no material change in our indebtedness since February 29, 2024 and up to the date of this document.

### KEY FINANCIAL RATIOS

The following table sets out our key financial ratios for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Revenue growth . . . . .	50.4%	25.7%	1.4%
Gross profit growth . . . . .	87.3%	125.3%	(3.0)%
Gross profit margin <sup>(1)</sup> . . . . .	37.5%	67.2%	64.3%
Adjusted net (loss)/profit margin (non-IFRS measure) <sup>(2)</sup> . . . . .	(18.4)%	21.8%	3.5%
Return on total asset <sup>(3)</sup> . . . . .	(45.6)%	(159.7)%	(197.1)%
Current ratio <sup>(4)</sup> . . . . .	0.11	0.11	0.09

*Notes:*

- (1) Gross profit margin equals gross profit divided by revenue for the year and multiplied by 100%.
- (2) Adjusted net (loss)/profit margin (non-IFRS measure) equals adjusted net (loss)/profit (non-IFRS measure) divided by revenue for the year and multiplied by 100%.
- (3) Return on total assets is calculated by the loss for the year divided by the total assets as at the respective year end and multiplied by 100%.
- (4) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective year end.

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For details, please refer to “— Year-to-year comparison of results of operations” in this section for discussion of the factors affecting our results of operations during the respective years.

### LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from capital contribution from shareholders and borrowings.

As of December 31, 2021, 2022 and 2023, we had cash and cash equivalents of RMB131.8 million, RMB40.3 million and RMB144.3 million, respectively. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of operating cash flow, equity and debt financing and [REDACTED] from the [REDACTED].

### Cash Flow

The following table sets out a reconciliation from the operating cash flows before movements in working capital to net cash used in operating activities, and our cash flows for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before movement in working capital . . . . .	(70,654)	109,971	30,688
Changes in working capital . . . . .	33,457	(35,867)	(133)
Tax paid. . . . .	(41)	(1,669)	(2,163)
Net cash (used in)/generated from operating activities . . . . .	(37,238)	72,435	28,392
Net cash (used in)/generated from investing activities . . . . .	(21,889)	(40,447)	108,835
Net cash used in financing activities. . . . .	(22,116)	(125,737)	(28,984)
Net (decrease)/increase in cash and cash equivalents . . . . .	(81,243)	(93,749)	108,243
Cash and cash equivalents at the beginning of the year . . . . .	215,342	131,758	40,250
Effect of foreign exchange rate changes . . . . .	(2,341)	2,241	(4,169)
Cash and cash equivalents at the end of the year . . . . .	131,758	40,250	144,324

### *Net cash generated from/(used in) operating activities*

For the year ended December 31, 2023, net cash generated from operating activities was RMB28.4 million, which was primarily attributable to our loss before tax of RMB800.8 million, as adjusted by (i) non-cash items, which primarily comprised of contingently redeemable ordinary and preferred shares of RMB753.8 million, equity-settled share-based payment expenses of RMB41.7 million and write down of inventories of RMB21.9 million; and (ii) changes in working



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capital, which primarily comprised of (a) a decrease in inventories of RMB6.2 million in line with the trend of our sales of Smart Devices and Other Accessories; (b) an increase in trade payables of RMB13.1 million due to the rise in production activities carried out in late 2023 compared to late 2022; (c) an increase in other payables and accruals of RMB12.7 million; partially offset by (d) an increase in trade receivables RMB22.4 million due to the launch of TicWatch Pro 5 in May 2023 which increase our from Smart Devices and Other Accessories in the second half of 2023; and (e) an increase in prepayments, deposits and other receivables of RMB9.6 million primarily the increase in inventories in line with the increase in overseas sales.

For the year ended December 31, 2022, net cash generated from operating activities was RMB72.4 million, which was primarily attributable to our loss before tax of RMB668.5 million, as adjusted by (i) non-cash items, which primarily comprised of contingently redeemable ordinary and preferred shares of RMB775.1 million, equity-settled share-based payment expenses of RMB17.3 million and write down of inventories of RMB9.6 million; and (ii) changes in working capital, which primarily comprised of (a) a decrease in inventories of RMB19.4 million in line with the trend of our sales of Smart Devices and Other Accessories; (b) a decrease in prepayments, deposits and other receivables of RMB11.0 million primarily due to the decrease in inventories in line with the decrease in overseas sales; and (c) a decrease in trade receivables of RMB3.4 million primarily due to the decrease in revenue from Smart Devices and Other Accessories, partially offset by (d) a decrease in other payables and accruals of RMB57.9 million; and (e) a decrease in trade payables of RMB11.7 million due to the decrease in our expected revenue from Smart Devices and Other Accessories.

For the year ended December 31, 2021, net cash used in operating activities was RMB37.2 million, which was primarily attributable to our loss before tax of RMB274.5 million, as adjusted by (i) non-cash items, which primarily comprised of contingently redeemable ordinary and preferred shares of RMB98.9 million, impairment of goodwill of RMB33.8 million and share of profits less losses of joint venture of RMB18.6 million; and (ii) changes in working capital, which primarily comprised of (a) an increase in other payables and accruals of RMB61.9 million; (b) a decrease in prepayments, deposits and other receivables of RMB16.5 million due to the decrease in service fees incurred by the acquired online education business in 2021; and (c) an increase in trade payables of RMB4.9 million due to our cost of sales from Smart Devices and Other Accessories; partially offset by (d) an increase in inventories of RMB31.3 million in line with the trend of our sales of Smart Devices and Other Accessories; and (e) an increase in trade receivables of RMB18.6 million due to the increase in revenue from Smart Devices and Other Accessories.

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## FINANCIAL INFORMATION

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### *Net cash (used in)/generated from investing activities*

For the year ended December 31, 2023, net cash generated from investing activities was RMB108.8 million, which was primarily attributable to proceeds from sale of financial assets of RMB300.3 million and a net decrease in deposits with banks of RMB19.9 million, partially offset by payment for purchase of financial assets of RMB207.3 million.

For the year ended December 31, 2022, net cash used in investing activities was RMB40.4 million, which was primarily attributable to payment for purchase of financial assets of RMB100.0 million and an increase in deposits with banks of RMB50.2 million, and was partially offset by proceeds from disposal of a joint venture of RMB104.5 million.

For the year ended December 31, 2021, net cash used in investing activities was RMB21.9 million, which was primarily attributable to an increase in deposits with banks of RMB10.3 million and payment for purchase of financial assets of RMB7.7 million and loans to a third party of RMB5.2 million.

### *Net cash used in financing activities*

For the year ended December 31, 2023, net cash used in financing activities was RMB29.0 million, which was primarily attributable to repayment of bank loans of RMB20.0 million and the capital element of lease rentals paid of RMB7.1 million.

For the year ended December 31, 2022, net cash used in our financing activities was RMB125.7 million, which was primarily attributable to payment for repurchase of ordinary shares and preferred shares of RMB118.4 million and the repayment of bank loans of RMB20.0 million, and was partially offset by proceeds from new bank loans of RMB20.0 million.

For the year ended December 31, 2021, net cash used in our financing activities was RMB22.1 million, which was primarily attributable to the repayment of bank loans of RMB31.8 million, and the capital element of lease rentals paid of RMB9.3 million, and was partially offset by proceeds from new bank loans of RMB20.0 million.

## CONTINGENT LIABILITIES

As of December 31, 2021, 2022 and 2023 and February 29, 2024, we did not have any material contingent liabilities.

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## FINANCIAL INFORMATION

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### CAPITAL COMMITMENTS

During the Track Record Period and up to February 29, 2024, we had not had any material capital commitments.

### CAPITAL EXPENDITURES

Our capital expenditures primarily relate to the purchase of property, plant and equipment and intangible assets for the purpose of expanding our operations. Our capital expenditures were RMB2.9 million, RMB5.2 million and RMB6.5 million for the years ended December 31, 2021, 2022 and 2023, respectively.

We intend to fund our future capital expenditures with our existing cash balance, anticipated cash flows from operations and [REDACTED] received from the [REDACTED]. For details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

### MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we had entered into a number of related party transactions, see note 36 to the Accountants’ Report in Appendix I to this document.

Our Directors believe that our transactions with related parties during the Track Record Period had been conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

### FINANCIAL RISK DISCLOSURE

During our conduct of business, we are exposed to various types of market risks including credit risk, liquidity risk, interest rate risk and currency risk. Details of the risks which we are exposed to are set out in note 34 to the Accountants’ Report set out in Appendix I to this document.

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## FINANCIAL INFORMATION

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### DIVIDENDS

As of the Latest Practicable Date, we do not have any predetermined dividend payout ratio. No dividends had been declared or paid by our Company during the Track Record Period.

Subject to the Cayman Companies Act and the Articles of Association, the Company in general meetings may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. Under the Cayman Islands law, our Company may pay a dividend out of either our profits or share premium account (including share premium in the capital reserve account, if any), provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As advised by Campbells, our legal advisor as to Cayman Islands laws, subject to the above, there is no restriction under the Cayman Islands law for our Company to declare and pay a dividend, despite our net liabilities position. In addition, our Directors may from time to time pay such interim dividends on shares outstanding of our Company and authorize payment of the same out of the funds of our Company that are lawfully available. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board. For details, please refer to the paragraph headed “Summary of the Constitution of the Company and Cayman Companies Act — Summary of Cayman Islands Company Law and taxation — 4. Dividends and distributions” in Appendix III to this document.

### WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, and the estimated [REDACTED] from the [REDACTED], our directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

### DISTRIBUTABLE RESERVES

As of December 31, 2023, we did not have any distributable reserves. We will therefore only be able to declare dividends after all our historically accumulated losses have been made up for. Our accumulated losses and net liabilities as of December 31, 2023 were primarily attributable to changes in the carrying amount of contingently redeemable preferred shares and ordinary shares. Our redeemable preferred shares and ordinary shares issued will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares and our position of net liabilities would turn into net assets.

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## FINANCIAL INFORMATION

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### **[REDACTED] EXPENSES**

[REDACTED] expenses represent professional fees, [REDACTED] and other fees incurred in connection with the [REDACTED]. Based on the mid-point of the indicative [REDACTED] range and assuming (i) the [REDACTED] is not exercised; and (ii) each Preferred Share is converted into one Share, without taking into account any Shares that may be issued under the [REDACTED] Share Option Scheme, the total estimated [REDACTED] expenses in relation to the [REDACTED] is RMB[REDACTED] million, representing approximately [REDACTED]% of the gross [REDACTED] from the [REDACTED]. The estimated [REDACTED] expenses consist of (i) [REDACTED]-related expenses (including [REDACTED]) of HK\$[REDACTED] million, (ii) fees and expenses of legal advisors and reporting accountants of HK\$[REDACTED] million and (iii) other fees and expenses of HK\$[REDACTED] million. During the Track Record Period, [REDACTED] expenses of RMB[REDACTED] million were incurred of which RMB[REDACTED] million were charged to our consolidated statements of profit or loss and other comprehensive income and RMB[REDACTED] million were recognized to our consolidated statements of financial position. We estimate that we will further incur [REDACTED] expenses of RMB[REDACTED] million of which RMB[REDACTED] million will be charged to our consolidated statements of comprehensive income and RMB[REDACTED] million is expected to be accounted for as a deduction from equity upon the completion of the [REDACTED].

### **UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

For details on unaudited [REDACTED] statement of adjusted net tangible assets, please refer to the section headed “Unaudited [REDACTED] Financial Information” set out in Appendix II to this document.

### **NO MATERIAL ADVERSE CHANGE**

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2023, being the end date of the periods reported in the Accountants’ Report set out in Appendix I to this document, and there is no event since December 31, 2023 that would materially affect the information as set out in the Accountants’ Report set out in Appendix I to this document.

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

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